



Semiannuual REPORT TO Congress

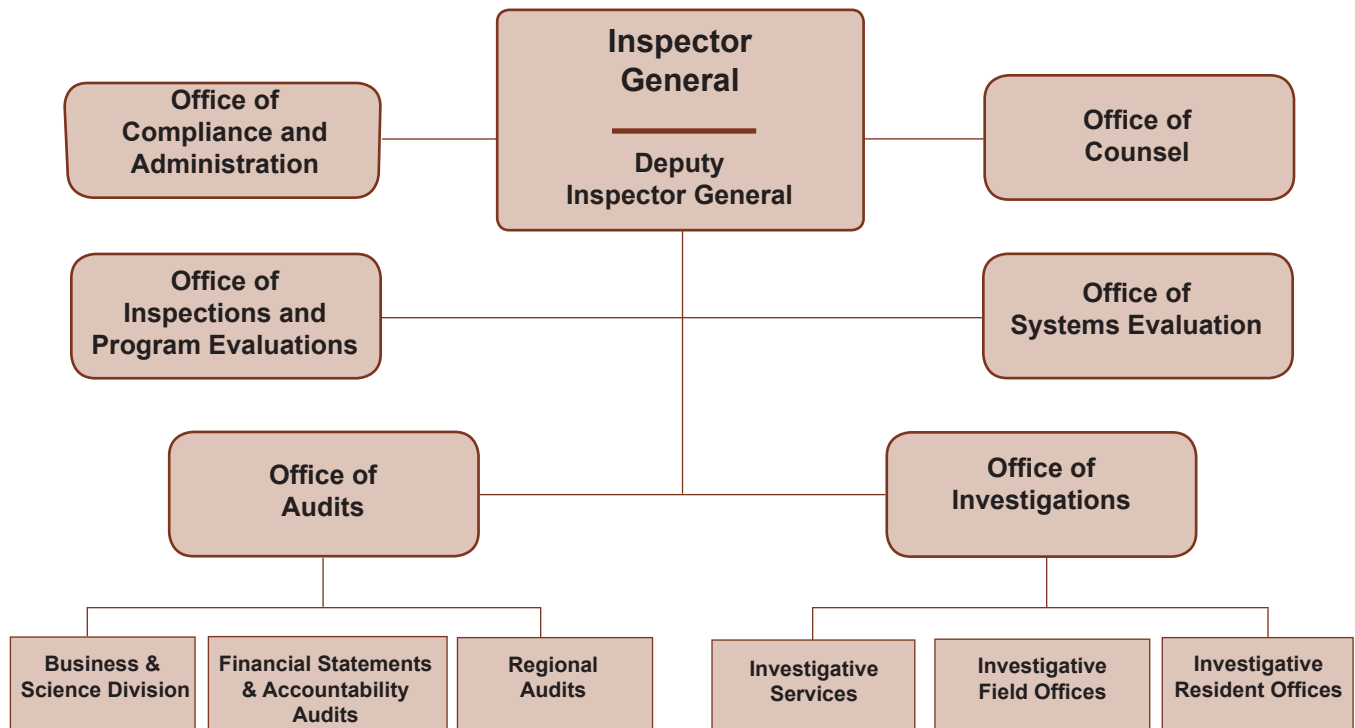
March 2006



IG's Semiannual Report to Congress

March 2006

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UNITED STATES DEPARTMENT OF COMMERCE
The Inspector General
Washington, D.C. 20230

March 2006

The Honorable Carlos M. Gutierrez
Secretary of Commerce
Washington, D.C. 20230

Dear Mr. Secretary:

In accordance with the Inspector General Act of 1978, I am pleased to submit our *Semiannual Report to Congress* for the first half of fiscal year 2006. This report outlines the work and activities of my office for the 6-month period October 1, 2005, through March 31, 2006. The act requires that we prepare this report twice each year to summarize our assessments of Commerce operations and that you transmit it, with any comments you may wish to add, to Congress within 30 days of receiving it.

This reporting period has been especially productive for my office, as we have concluded reviews of several critical, large-scale departmental operations that I know are of particular interest to you. Most notably, we focused on Commerce's mission, responsibilities, and opportunities in China with a comprehensive inspection of the Commercial Service's China post and the Bureau of Industry and Security's export control processes for that country. For the most part, these operations are sound, but both have issues that require senior management's attention to best achieve Commerce's goals for balancing trade between our countries without compromising our national security.

We also reviewed the Census 2006 test of address canvassing and noted several key operational and logistical issues that the bureau chose not to focus on, and thus, we believe, missed the opportunity to enhance related operations for 2010.

With our comprehensive evaluation of the Department's management of the Federal Employees' Compensation Act program, we found many serious shortcomings. But I must tell you that your senior officials in this—and most other instances—have responded promptly with actions that should ameliorate many of the long-standing problems we uncovered.

I also am pleased to tell you that the Department achieved a major milestone during this semiannual period: our most recent work involving our reviews of GPRA implementation—which has been a top management challenge for the past 7 years—showed that Commerce has made great strides in improving the quality and reliability of its performance data and associated reporting, thanks in large part to the increased attention your senior managers have given this issue. We have therefore removed it from the challenge list, and in its place, we have added the need for closely monitoring development and acquisition of environmental satellites—an enormously expensive and important activity that requires the attention of senior Department officials.

As always, I am grateful for your open support of the work of my office. I look forward to another productive period that will result in still stronger operations and greater efficiencies throughout Commerce and its bureaus.

Sincerely,

Johnnie E. Frazier



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The vintage images that appear throughout the book show the Commerce Herbert C. Hoover Building in various stages of construction during the 1930s.

IG's Message to Congress

The 21st century, though barely half a decade old, has confronted government at all levels with challenges of unprecedented scope and complexity: the constant call to diffuse new threats to our security coupled with catastrophic natural events at home and abroad are but two of the more obvious realities of recent years that have pushed federal agencies to redefine the methods by which they accomplish their mission-critical activities efficiently and effectively. Ours is a world of unpredictability. And in this environment, “business as usual” in government has come to mean a continual reexamination and readjustment of priorities to ensure the integrity of operations and best service to the public.

I am pleased to report that the work of my office during this first semiannual period of fiscal year 2006 has uncovered numerous instances in which the Department of Commerce has risen to the challenge of adjusting its priorities to meet new needs even as it pursues longer standing issues. This is evident in the strides it has made in improving an array of critical activities during these past months and in addressing the top management challenges we have identified. At the same time, Secretary Gutierrez has laid out what he sees as the key issues of consequence requiring the Department’s sustained attention, several of which complement our list of management challenges. He has continued to underscore the need for active collaboration with us in addressing areas of mutual concern.

Significant Improvement Noted in Performance Reporting

The Department’s performance reporting under the Government Performance and Results Act has been problematic for years and on our list of top challenges since 1999. Accurate performance measures and reliable data are imperative. Without them, Commerce cannot know whether programs are accomplishing their intended purpose, nor can it make informed funding decisions. Our reviews of performance reporting at various bureaus over the past 5 years identified numerous deficiencies that rendered reported data of minimal use in assessing the true value or success of activities and operations. During this semiannual period, we followed up on this work and found that although there are still opportunities for further improvements, the Department and its bureaus have restructured their performance measurement process and practices so significantly that GPRA no longer warrants a place on our top challenge list. Commerce officials deserve to be commended for their dedicated attention to this issue and the resulting success.

The Secretary’s Policy Priorities

- Competitiveness and Innovation
- Intellectual Property Rights
- Trade
- China
- Environmental Stewardship
- Gulf Coast Rebuilding
- Immigration

Greater Coordination Recommended for Commerce’s China Operations

The Department has an important mission, key responsibilities, and a major presence in China, with staff from three bureaus assigned to what by many accounts is one of our most controversial trading partners. China is the second largest foreign supplier of goods to the U.S.¹ and the source of a significant trade imbalance. Its open aspirations for nuclear capabilities further complicate trade relations and underscore the need for effective export controls.

Our inspection of Commercial Service operations in China in tandem with our review of the Bureau of Industry and Security’s export control policies and procedures for that country provided a comprehensive look at the strengths and weaknesses of these operations and related activities. (See pages 23 and 13, respectively.) We found that overall, the Department’s trade operations in China are sound, but would benefit from better coordination among the Commerce agencies stationed there. Secretary Gutierrez has made trade policies and operations with China a priority of his tenure. To address the weaknesses in coordination we noted, the Secretary has directed his Deputy Secretary to convene quarterly meetings of the Department’s principal officials who have staff in China as “a forum for the exchange of information, to identify emerging issues, and to improve overall coordination of our China operations.” I believe this action will go a long way toward ensuring that Commerce fully leverages trade opportunities with China while protecting national security interests.

¹ U.S. Government Accountability Office, April 2006. *China Trade: Challenges and Choices to Apply Countervailing Duties to China*, GAO-06-608T. Washington, D.C.:GAO.

Swift Action Needed to Bolster FECA Program Oversight

During this past year, the Inspection and Evaluation (I&E) Committee of the President's Council on Integrity and Efficiency established a working group to coordinate efforts among OIGs to evaluate their agency's handling of the Federal Employees' Compensation Act (a.k.a., workers' compensation) program. As chairman of the I&E Committee, I welcomed this opportunity to promote inter-OIG collaboration on this multibillion program that—in the absence of strict oversight—is so susceptible to fraud, waste, and abuse.

The scope of inattention to the FECA workload we noted in our review at Commerce was disturbing and mirrored findings by other IGs. By not aggressively monitoring the status of claimants, Commerce failed to bring work-ready employees back on the job, refer suspected cases of fraud to our office, or identify incorrect or excessive benefit payments. (See page 39.)

The Department responded to our findings immediately by greatly enhancing its management of the program. It has also instituted training for departmental personnel who oversee the FECA program, is seeking ways to return employees to work as soon as possible, and has strengthened its interaction with the Labor Department.

OIG Investigations: Numerous Cases Successfully Concluded, Large Recoveries Made

Our Office of Investigations was extremely productive during this reporting period, pursuing numerous cases of fraud and criminal conduct by Commerce employees, recipients of federal funds, and other parties, which resulted in the recovery of \$7.5 million in fines, restitution, and other sanctions. (See page 48.) Our state-of-the-art Computer Crimes Unit focuses on uncovering instances of criminal use of government computers, particularly in the area of Internet child pornography. We have seen the number of prosecutions in this area significantly expand, thanks in part to increased vigilance by agency IT security specialists, who routinely refer instances of suspected criminal conduct to us. One example of the positive results achieved through departmental cooperation was the highly publicized case of a NOAA employee indicted for sexual exploitation of children and possession of child pornography.

Other Areas of Interest

You will find in the pages of this report the details of numerous other reviews completed during this semiannual period. For example:

- **Financial Accountability** This year's financial statements audits rendered clean opinions for the Department and United States Patent and Trademark Office. This is the 7th consecutive year Commerce has received a clean opinion and the 13th year for USPTO. (See pages 43 and 37.)

A follow-up audit of NOAA user fees suggested further enhancements to improve control of these funds (page 29), and audits of Commerce financial assistance recipients identified millions in questioned costs and funds to be put to better use. (See pages 30, 33, and 35.)

- **Missed Opportunities in Census Decennial Testing**

With the 2006 test of address canvassing, the Census Bureau marked a second major milestone in its efforts to automate processes for the 2010 decennial, this time attempting to update its address lists and associated maps using handheld computers. The units suffered from many of the same reliability problems that surfaced in the 2004 test of nonresponse follow-up. We also noted weaknesses in training, outreach, and several other logistical and administrative procedures that must be resolved before the 2008 dress rehearsal, and raised questions about the costs and benefits of conducting 100 percent address canvassing. (See page 19.)

Continued Department-wide Collaboration Assured

I began this message discussing the need for agencies to constantly reassess priorities and redirect their efforts. Secretary Gutierrez—in issuing his list of top concerns for the Department—has taken stock of current and emerging global situations that impact Commerce's many critical roles and has adjusted its priorities as necessary. My office has done the same with regard to the top management challenges facing the Department: we evaluated Commerce's progress in addressing the challenges and considered new areas that warrant careful, ongoing attention. As noted earlier, we removed GPRA implementation from the list. We refocused the challenge on financial management controls and systems to encompass more broadly the need for strong internal controls over all Department processes—financial, program, and business. And finally, we added a new challenge for monitoring development and acquisition of environmental satellites—an area in which Commerce will make huge investments over the next 4 years to support missions that are critical to the well-being of the nation and the world.

I have shared these new priorities with the Secretary, and many of them complement those on his list: strong trade operations, sound business processes and investment, and aggressive stewardship of marine and environmental resources, to name a few. He has assured me that he and his senior officials will support our work in all the challenge areas and collaborate with my office to make recommended improvements, with the goal of retiring each of these challenges as soon as possible.

I look forward to sharing with you the positive impact on Commerce operations that I know will result from this collaboration. And I welcome your continued input on our work to ensure that our focus addresses your priorities as well.

Major Challenges for the Department

The Office of Inspector General, in assessing its work at the close of each semiannual period, develops its list of Top 10 Management Challenges the Department faces. Each challenge meets one or more of the following criteria: (1) it is important to the Department's mission or the nation's well-being, (2) it is complex, (3) it involves sizable resources or expenditures, or (4) it requires significant management improvements. Because of the diverse nature of Commerce activities, these criteria sometimes cut across bureau and program lines. Experience has shown that by aggressively addressing these challenges the Department can enhance program efficiency and effectiveness; eliminate serious operational problems; decrease fraud, waste, and abuse; and achieve substantial savings.

Challenge 1

Strengthen Department-wide Information Security

In the 4 years since enactment of the Federal Information Security Management Act (FISMA), government agencies have devoted significant resources to improving the security of information stored on their computer systems. The problem is long-standing: GAO has identified information security as a government-wide high-risk issue every year since 1997. At Commerce, it is the number one challenge, and has been a material weakness since 2001.

To eliminate the material weakness, Commerce has emphasized improving its certification and accreditation (C&A) process for IT systems. In initiating an effort in February 2005 to enhance the quality of its C&A packages, its chief information officer issued a plan to produce acceptable quality C&A packages for all national-critical systems and some mission-critical systems by the end of FY 2005 and for all other systems by the end of FY 2006. Given the plan, our approach to the C&A portion of our 2005 FISMA evaluation was to review all improved packages available by August 31, 2005. Only five were ready—three from NOAA and two from Census²—but these showed some noteworthy improvements.

² The schedules provided by the Department's CIO Office in June indicated that more than 20 C&A packages would be available by August 31, 2005. The CIO subsequently reported that by September 30, C&A packages for all national-critical systems and over half of the mission critical-systems had been improved.

TOP 10 MANAGEMENT CHALLENGES

1. Strengthen Department-wide information security.
2. Effectively manage departmental and bureau acquisition processes.
3. Strengthen internal controls over financial, programmatic, and business processes.
4. Ensure that USPTO uses its authorities and flexibilities as a performance-based organization to achieve better results.
5. Control the cost and improve the accuracy of the decennial census.
6. Effectively manage the development and acquisition of environmental satellites.
7. Promote fair competition in international trade.
8. Effectively manage NOAA's stewardship of ocean and living marine resources.
9. Aggressively monitor emergency preparedness, safety, and security responsibilities.
10. Enhance export controls for dual-use commodities.

NOAA had significantly enhanced risk assessments, security plans, and testing, while Census's security plans were more comprehensive than in the past.

However, because of the testing deficiencies we still found and the few packages available for review, we have concluded that the Department's C&A process has not improved to the point where authorizing officials have sufficient details about remaining system vulnerabilities to make fully informed accreditation decisions. Therefore, we concluded that the IT security material weakness remains.

Our forthcoming report on our review of NOAA will contain recommendations for improving that agency's C&A packages and its process for managing the correction of security weaknesses. These recommendations may inform efforts Department-wide.

Commerce officials have continued to make clear their commitment to working with us to strengthen the C&A process. At the request of the Department's acting CIO, we presented the findings from our 2005 FISMA evaluation of C&A packages at the December CIO Council meeting. The meeting gave us the opportunity

Excerpt: Management of Federal Resources, OMB Circular A-130

Safeguards. Agencies shall:

- (a) Ensure that information is protected commensurate with the risk and magnitude of the harm that would result from the loss, misuse, or unauthorized access to or modification of such information;
- (b) Limit the collection of information which identifies individuals to that which is legally authorized and necessary for the proper performance of agency functions;
- (c) Limit the sharing of information that identifies individuals or contains proprietary information to that which is legally authorized, and impose appropriate conditions on use where a continuing obligation to ensure the confidentiality of the information exists;
- (d) Provide individuals, upon request, access to records about them maintained in Privacy Act systems of records, and permit them to amend such records as are in error consistent with the provisions of the Privacy Act.

to discuss the deficiencies, offer technical advice, and answer questions from the Department, bureau CIOs, and IT security officers. Our hope is that this interchange will continue and will enable Commerce to eliminate the problems with testing we have consistently noted, and to produce packages that fully support system accreditation decisions. The acting CIO is working with the operating units to identify the packages that will be available for our FY 2006 FISMA review.

C&A Weaknesses at USPTO

In a separate FISMA review, we looked at two packages from the United States Patent and Trademark Office (USPTO). In FY 2004, we had found this agency's C&A process to be strong. However, our FY 2005 assessment noted shortfalls in USPTO's monitoring of certified and accredited systems. The two systems in our review had undergone major changes since their certification and accreditation in 2004, but the agency had not considered the potential impact of the changes on the security of the systems, or evaluated the need to reaccredit. In addition, our examination of USPTO's IT service contracts (see September 2005 *Semiannual Report*, page 33) found, among other things, that no contractor IT systems have been certified or accredited, a situation that could place restricted information at risk.

FISMA Focus on Authenticating Remote Users

Another focus of our FY 2005 work was e-authentication risk assessments for selected Department systems. E-authentication is the process of electronically verifying the identities of users accessing government services over the Internet and is crucial to the Department's ability to properly authorize access to data and hold users accountable for their actions.

As part of our review, we evaluated the quality of NOAA's e-authentication risk assessment process for its Search and Rescue Satellite Aided Tracking System (SARSAT)—the U.S. portion of an international program that uses satellites to coordinate search and rescue activities. We identified a number of problems with the risk assessment as well as ways to strengthen the process and minimize the potential for unauthorized access to critical systems such as SARSAT, while improving user accountability. We will detail our findings and recommendations in our next semiannual report.

Challenge 2

Effectively Manage Departmental and Bureau Acquisition Processes

Commerce spends nearly \$2 billion annually on goods and services—roughly a third of its annual appropriation—and each year relies more on contractors to support its mission-critical work. Adequate oversight of acquisition planning and execution is essential to ensuring that taxpayer dollars are spent effectively and efficiently and procurement laws and regulations are followed.

The Census Bureau's contracting for products and services to support 2010 decennial operations continues to bear watching. The bureau estimates that 17 percent (\$1.9 billion) of its 2010 budget will be spent on contracts for information technology systems, advertising, and leases for local office space.³ One key IT program—Field Data Collection Automation (FDCA)—will develop the handheld mobile computers that field staff will use to collect 2010 decennial information. This is a critical piece of the bureau's reengineered strategy. Census originally planned to develop this equipment in-house but determined in early 2004 that it lacked the management and technical resources to do so. It set a late-March 2006 date for selecting a contractor to develop the system, and planned to use information gained during field tests last summer and fall to refine

³ <http://frwebgate.access.gpo.gov/cgi-bin/useftp.cgi?IPaddress=162.140.64.21&filename=d06465t.pdf&directory=/diskb/wais/data/gao>. Accessed April 7, 2006.

contract requirements. However, bureau officials had no process for transferring relevant information from the tests to the contract or identifying needed changes. So the contract was awarded without being modified to reflect lessons learned in the field tests. Should the need for changes to requirements emerge as the contract progresses, the bureau's costs for this key program are likely to grow.

We are also reviewing USPTO's acquisition management procedures and guidelines, looking at a sample of contracts worth nearly \$2.2 billion. Past work by our office and GAO has noted that—in the critical area of automation—the agency sometimes took an ad hoc approach to planning and managing acquisition of systems, and failed to sufficiently analyze needs, alternatives, and costs. Preliminary findings from our in-progress work indicate that while USPTO has high-level acquisition policies, it lacks specific guidance for contracting officers.

Challenge 3

Strengthen Internal Controls Over Financial, Programmatic, and Business Processes

Internal controls are the steps agencies take to make sure their operations are effective, efficient, and in compliance with laws and regulations. Internal controls also ensure that financial reporting is reliable, and assets are safeguarded from waste, loss, or misappropriation, according to the Office of Management and Budget (OMB). Two documents, the Federal Managers' Financial Integrity Act (FMFIA) and the 2004 revision of OMB Circular A-123 (*Management's Responsibility for Internal Control*), set out internal control requirements for the federal government: Commerce and all federal agencies must define and document major financial internal control processes and test key financial controls to determine whether they are effective as of June 30, 2006.

In addition, Circular A-123 requires management to provide an assurance statement on the internal controls over financial reporting in its annual *Performance and Accountability Report*, including a

Without effective controls, "fraud, waste, and abuse in federal activities and programs lead to loss of billions of dollars of government funds, erode public confidence, and undermine the federal government's ability to operate effectively."

—McCoy Williams, Director, GAO Financial Management and Assurance, April 15, 2004, in testimony before the Subcommittee on Government Efficiency and Financial Management Committee on Government Reform, House of Representatives

conclusion on whether the internal controls are effective, a statement on identified material weaknesses, and management's actions to correct the weakness. This is no small task. Today's automated environments require rethinking what constitutes effective controls, how they should be designed and implemented, and whether additional or alternative documentation and records are needed. OIG is participating in an advisory capacity in the assessment.

Although we noted recent improvement in the Department's management and financial accountability as well as in program and operational effectiveness, our audits continually indicate more work is needed to strengthen internal controls over programs, operations, and administrative areas. Past reviews have identified management and general control weaknesses, such as lack of guidelines for using travel and purchase cards; failure to recover full costs for reimbursable projects; fiscal and operational weaknesses disclosed in findings of questioned costs in financial assistance awards; and deficiencies in planning, legal review, and open competition in acquisition management.

Performance Measures and Internal Controls

In this semiannual period, we completed an assessment of the Department's progress implementing the 1993 Government Performance and Results Act (GPRA). (See page 41.) Commerce first began implementing GPRA in 1997, and in March 1999, we identified it as a top management challenge for the Department. From September 2000 to September 2004, OIG issued eight separate audit reports covering 45 performance measures reported by six Commerce bureaus. Those audits uncovered repeated instances of ambiguous measures that either did not establish clear links between the activity being measured and the agency's actions or were stated in terms that did not appropriately represent performance results. We also found cases of inadequate disclosure, and we identified insufficient management controls and procedures for verifying performance information.

Over the past several years, the Department has improved both the utility and integrity of performance information. Because of this, we determined that Commerce and its bureaus had collectively taken sufficient steps to warrant the removal of GPRA implementation from the list of Top 10 Management Challenges, although we cautioned that management should continue to give attention to performance reporting.

We expect the new federal emphasis on strong internal controls to create a number of new demands for OIG reviews in the coming years. For example, new legislation passed in 2005 puts one of the Department's smaller agencies in a position of having to manage an enormous national project with an even larger budget than had been anticipated.



Source: NTIA

New Law Will Alter NTIA's Future

The Digital Television Transition and Public Safety Act of 2005 requires the FCC to auction recovered analog spectrum and deposit the proceeds into a special fund, which is to be used for programs within the National Telecommunications and Information Administration. Funding for the programs authorized by the act exceeds \$2.5 billion, an overwhelming responsibility for an agency of NTIA's size. NTIA's FY 2006 budget allows a little over \$18 million for salaries and \$22 million for existing grant programs.

Successfully implementing the act will constitute a significant management challenge for the Department. Managing this level of budgetary growth in a short time period and establishing the programs required by the act will be difficult. NTIA will also have to oversee the work of contractors who assist in the design and implementation of the programs. OIG will work closely with NTIA as it begins to implement the requirements of the act. We will share lessons learned from our work in other areas to help the agency design strong, well-structured programs and minimize opportunities for fraud.

Challenge 4

Ensure that USPTO Uses Its Authorities and Flexibilities as a Performance-based Organization to Achieve Better Results

Since March 2000 when the Patent and Trademark Office Efficiency Act transformed USPTO into a performance-based organization designed to operate more like a private corporation than a government agency, OIG has paid close attention to a number of aspects of the organization's internal management structures. USPTO now is responsible for operational functions that once were controlled or monitored at the departmental level. To its credit, the bureau reports it accomplished 75 percent of its key performance measures in FY 2005, and it has had clean audit opinions for 13 consecutive years.

But USPTO faces numerous challenges, such as a continuing increase in applications, training about 1,000 newly hired examiners in Patents and Trademarks, and transitioning to an electronic processing environment. In addition, USPTO's expanded authority over personnel decisions and processes, procurement, and information technology operations needs to be fully utilized.

GAO and OIG Reports Highlight Concerns

Two reports issued by the Government Accountability Office in June 2005 raised a number of management concerns. GAO reported that USPTO does not have a fully integrated, electronic patent process planned despite spending more than \$1 billion on the project



Newly hired patent examiners attend an orientation class. USPTO is hiring about 1,000 new patent examiners to handle increases in applications.

Source: USPTO

from 1983 through 2004.⁴ In addition, recent increases in both the complexity and volume of patent applications have lengthened the time it takes to process patents and raised concerns about the validity of the patents USPTO issues.⁵ The report also concluded that USPTO's difficulty attracting and retaining qualified staff stems from an ineffective management strategy for communicating and collaborating with examiners, outdated assumptions about production quotas and performance awards, and a lack of mandatory continued technical training for patent examiners.

OIG has issued nearly a dozen reports examining problems at USPTO since 2001. We have delved into systemic human resources and program issues, and have examined USPTO's computer systems security. A recent OIG evaluation found that while most USPTO contracts include information technology security clauses, important requirements are not implemented properly or are not enforced.⁶ Our office is currently reviewing procurement criteria and procedures that USPTO has been using because it is exempted by the Patent and Trademark Office Efficiency Act from provisions of the Federal Property and Administrative Services Act of 1949.

The bureau has taken decisive action to address some problems we identified in the past, and we have been pleased that USPTO has been receptive to our recommendations. But ultimately, we believe the problems USPTO suffers are serious and require the sustained commitment of senior managers to resolve. OIG will continue to monitor the bureau's progress in this transition.

Challenge 5

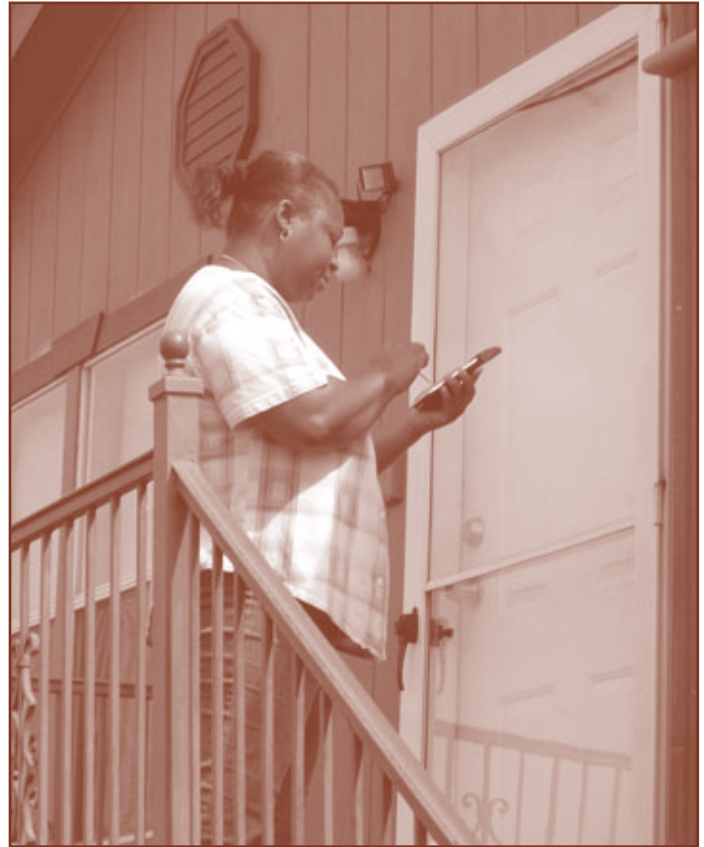
Control the Cost and Improve the Accuracy of the Decennial Census

At an estimated cost of \$11.3 billion, the 2010 census will be the most expensive decennial to date, even after adjusting for inflation. Key to the Census Bureau's ability to conduct an accurate, comprehensive population count within budget is its reengineered design, which relies heavily on automating critical field operations. The bureau established a rigorous testing schedule to monitor development and implementation of the strategy's key components, identify problems, and incorporate solutions in time for the decennial.

⁴ U.S. Government Accountability Office, June 17, 2005. *Intellectual Property: Key Processes for Managing Patent Automation Strategy Need Strengthening*, GAO-05-336. Washington, D.C.: GAO.

⁵ U.S. Government Accountability Office, June 2005. *Intellectual Property: USPTO Has Made Progress in Hiring Examiners, but Challenges to Retention Remain*, GAO-05-720. Washington, D.C.: GAO.

⁶ Department of Commerce, Office of Inspector General, Office of Systems Evaluation, September 2005. *U.S. Patent and Trademark Office: Information Security in Contracts Needs Better Enforcement and Oversight*, OSE-17455. Washington, D.C.: Department of Commerce OIG.



A "lister" with a mobile computer waits at a door for respondents during the Census Bureau's 2006 field test in Austin, Texas.

Source: OIG

This semiannual report details our review of Census's test of automated address canvassing—an operation designed to keep the bureau's address file and digital map database current and complete (see page 19). During address canvassing, temporary staff (called "listers") equipped with handheld computers go into the field to verify, update, add, or remove addresses; add and delete streets to correct computer maps; and annotate address locations on the maps. The information they collect has a direct bearing on the bureau's ability to accurately count the population.

Our review disclosed several problems that undercut the value of the canvassing test, most notably, unreliable handheld computer functions, including its GPS capabilities; inaccurate maps despite an effort to correct them nationwide; insufficient quality control, training, and information sharing; and an inadequate focus on outreach. In addition, Census had not sufficiently developed procedures for deleting nonexistent streets, fully canvassing complicated blocks, updating mobile home sites, identifying rural addresses, and manually placing map locations on the handheld units when GPS could not be accessed.

Also tested was a new quality control process that incorporates the verification of address deletions made by listers into the

canvassing operation, rather than performing this check after the operation concludes, as has been the practice. Using this new procedure, corrections can be made to the address list and maps prior to Census Day.

Despite this and other enhancements, we concluded that the bureau only partially achieved its test objectives. Census could have earned a better return on its investment if it had fielded more reliable handheld computers, tested areas where the postal service (rather than the bureau) could deliver questionnaires to reduce costs, and evaluated outreach efforts aimed at the hard-to-enumerate American Indian population. Based on our observation of this test, we believe the bureau should assess the viability and cost-benefits of its decision to canvass nearly every household in the country in 2010.

We are looking at several more 2006 test operations including update/enumerate at the Cheyenne River Reservation and Off-Reservation Trust Land in South Dakota. During this operation, which is used in communities where residents are less likely to return a completed questionnaire, enumerators update the address lists and maps, and interview a resident to complete a questionnaire for each housing unit. We are also assessing the bureau's progress in improving the method for designating which communities require this type of enumeration. Finally, we are reviewing the group quarters operation in Travis County, Texas, which enumerates individuals residing in group facilities, such as dormitories, prisons, and nursing homes.

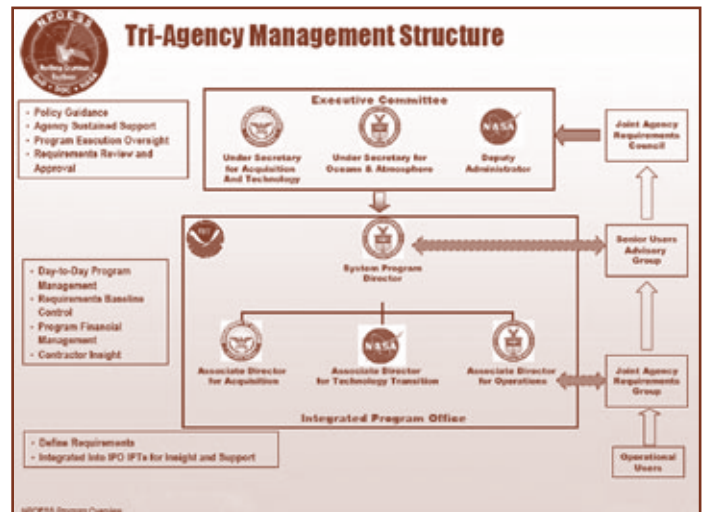
Challenge 6

Effectively Manage the Development and Acquisition of Environmental Satellites

Over the next 5 years, the Department, through the National Oceanic and Atmospheric Administration, will spend several billion dollars in contracts for the purchase, construction, and modernization of environmental satellites.⁷ Two of these systems, operated by NOAA's National Environmental Satellite, Data and Information Service (NESDIS), collect data to provide short- and long-range weather forecasts and a variety of other critical environmental and climate information. Geostationary Operational Environmental Satellites (GOES) generate near-term data for the continental United States and Hawaii. Polar Operational Environmental Satellites (POES) provide full global data for short- and long-range forecast models, climate modeling, and various other purposes.⁸

⁷ <http://www.osec.doc.gov/bmi/Budget/05APPR/PAR05.pdf>, page 210.

⁸ http://science.hq.nasa.gov/missions/satellite_64.htm.



NOAA, NASA, and Defense share oversight of NPOESS as members of the executive committee and manage specific aspects of satellite development, acquisition, and integration within the Integrated Program Office.

Source: [http://www.esipfed.org/business/library/meetings/12th_fed_meeting/documents/Mike_Haas_Pres.ppt#283,5,Tri-Agency Management Structure](http://www.esipfed.org/business/library/meetings/12th_fed_meeting/documents/Mike_Haas_Pres.ppt#283,5,Tri-Agency%20Management%20Structure)

The National Weather Service is the main customer for the satellite data, which it uses to provide weather, hydrologic, and climate forecasts and warnings that can be used by other governmental agencies, the private sector, and the global community.

Since 1994 the Department of Commerce, Department of Defense, and National Aeronautics and Space Administration have been working to develop the National Polar-orbiting Operational Environmental Satellite System (NPOESS), the nation's first polar orbiting system that will meet both civilian and defense environmental data needs. Slated to replace POES, NPOESS is considered critical to the United States' ability to maintain the continuity of data required for weather forecasting and global climate monitoring through the year 2020.

Complex, high-cost acquisitions such as these are extremely difficult to manage within cost and schedule goals. Given the billions of dollars at stake in the NOAA satellite projects and their importance to public safety and economic stability, we believe these programs require continuous scrutiny. We have therefore added satellite development and acquisition to our list of top challenges facing the Department.

NPOESS Program Well Over Budget and Behind Schedule

We are currently conducting an audit of the NPOESS program, which focuses on how the contractor and program managers identify and communicate problems to NOAA senior officials, and whether the contract's award fee structure is appropriate and effective.

Problems developing new sensors for NPOESS have inflated costs and delayed the schedule significantly. The original cost estimate of \$6.9 billion now stands at \$9.7 billion, according to a GAO estimate. When the contract for integrating the satellite systems was awarded in 2002, the delivery date for the first NPOESS satellite was March 2008; the current projection is late 2011, at best.

The Nunn-McCurdy provision of the FY 1982 National Defense Authorization Act requires the Secretary of Defense to notify Congress when unit costs for a major acquisition program such as NPOESS grow by 15 percent⁹ over original baseline estimates. Should costs grow by 25 percent, the act requires the Secretary to certify in writing that the program is essential to national security and the most cost-effective option, the new cost estimate is reasonable, and a management structure is in place to adequately control unit costs.

In November 2005, an estimate prepared for NPOESS by Defense showed that cost growth had exceeded 25 percent, triggering the Nunn-McCurdy certification requirement. Failure to provide the certification will terminate DOD's involvement in the program and have a devastating impact, given that DOD provides half the program's funding.

Despite these huge cost and schedule overruns, the prime contractor has collected millions of dollars in incentive payments ("award fees"). Our initial audit findings suggest that the award fee structure is seriously flawed because it allows the contractor to collect incentive payments even for unsatisfactory performance, and that management failed to question optimistic program assessments when progress reports indicated serious cost and schedule overruns.

Oversight of GOES-R Development Under Way

GOES-R is the next-generation Geostationary Operational Environmental Satellite series scheduled for initial launch in 2012. This new series will have enhanced sensing capabilities that offer an uninterrupted flow of high-quality data to support weather forecasting, severe storm detection, and climate research vital to public safety. The fiscal year 2006 through 2010 cost is projected to be about \$2 billion.

Building a new satellite series within schedule and budget constraints requires a structured acquisition process. When key steps are skipped, schedule and cost can dramatically increase. In acquiring the GOES I-M series in the 1980s and 1990s, NOAA made technical assumptions without assessing ways to reduce risks—a major reason why completing the acquisition took twice as long as expected and cost an additional \$1 billion.

For GOES-R, NOAA is following a three-phase acquisition process—concept development, program definition and risk reduction, and acquisition and operations. Another big change is that NOAA is issuing and managing the prime system contract—a role NASA handled in the GOES I-M and follow-on GOES N-P acquisition. For GOES-R, NASA will continue to focus on the technical aspects of the acquisition as the manager of contracts for satellite sensors. The Department will monitor the program and has approval authority for advancing to the next acquisition phase. GOES-R is currently in the program definition and risk reduction phase, with contract award for acquisition and operations scheduled for late 2007.

In October 2005, NOAA awarded three contracts for the program definition and risk reduction phase. Each contractor will refine the GOES-R concept, design strategies for managing risk, and develop baseline plans for implementation. We intend to monitor contract activities, identify key early stage program challenges, and determine whether NOAA is taking appropriate measures to meet them.

Challenge 7

Promote Fair Competition in International Trade

The Department of Commerce accomplishes its goals of promoting trade, opening overseas markets to American firms, and protecting U.S. industry from unfair competition by imports primarily through the work of the International Trade Administration. Over the past several years, OIG has focused a number of reviews on the Department's efforts to increase U.S. market opportunities, provide assistance to U.S. exporters, and overcome trade barriers in difficult foreign markets.

U.S. Trade with China

China has one of the world's fastest growing economies, making its market an attractive one for U.S. businesses. While U.S. exports to China have increased rapidly in the past 3 years, this growth has not kept pace with the growth in Chinese imports. Between 2002 and 2005, the U.S. trade deficit with China almost doubled, reaching \$201.6 billion in calendar year 2005.¹⁰ This deficit is a major concern of the U.S. government and business sectors, both of which find that China's intellectual property rights enforcement, currency valuation, technical barriers to trade, restrictions on

⁹ 10 USC § 2433.

¹⁰ U.S. Census Bureau, Trade in Goods (Imports, Exports and Trade Balance) with China, see www.census.gov/foreign-trade/balance/c5700.html, accessed February 13, 2006.



Source: <http://www.export.gov/china/images/mainpic.gif>

trading and distribution rights, and closed regulatory environment contribute to the continuing U.S.-China trade imbalance.

During this semiannual period, we focused on Commerce's trade-related activities in China. (See page 23.) We visited China in September 2005 to review the U.S. Commercial Service (CS) offices in Beijing, Shanghai, Guangzhou, Chengdu, and Shenyang. We evaluated the effectiveness of CS' coordination with other Commerce bureaus operating in China, as well as its cooperation with other governmental and nongovernmental stakeholders. We also reviewed the post's claimed export success statistics, efforts in the area of intellectual property rights and market access, the new American Trading Center initiative, and other programmatic and administrative issues.

Overall, we found that the post is generally doing a good job of providing export assistance to U.S. companies and collaborates well with its trade partners, other components of the U.S. mission, the Department, and other government agencies, but we did identify a number of issues that warrant management attention. We issued 3 recommendations to the Secretary and more than 32 to the Under Secretary for International Trade and Assistant Secretary and Director General of CS that we believe will improve Commerce's operations in China.

Challenge 8

Effectively Manage NOAA's Stewardship of Ocean and Living Marine Resources

The National Oceanic and Atmospheric Administration is charged with monitoring the health of our nation's ocean, coastal, and Great Lakes resources; administering civilian ocean programs; and protecting and preserving the nation's living marine resources through scientific research, fisheries management, enforcement, and habitat conservation. NOAA also will have to deal with impacts from the 2005 storms on Gulf Coast aquatic ecosystems for many years to come, from assessing the hurricanes' effects on habitat and fisheries to recording the diminished numbers and redistribution of native species and damage to coastal wetlands.

During this semiannual period, we followed up on our audit of the National Marine Fisheries Service's (NMFS') preparation of



The California Central Valley Project is one of the largest water projects in the nation. Begun in 1935 by the federal government to irrigate and protect California's central valley, it provides water to irrigate 3.7 million acres and its power plants can produce up to 1.4 million kilowatts of electricity.

Source: http://esrpweb.csustan.edu/gis/maps/cvp_sw_p_sjv.jpg

a biological opinion for California's Central Valley Project, one of the nation's major water conservation efforts (see September 2005 *Semiannual Report*, page 21). In response to our audit recommendations, NOAA commissioned two independent scientific reviews of the opinion, both of which found the scientific information used in the biological opinion was not the best available. In light of these findings, we asked NOAA officials to submit to us a plan that identifies actions they will take to address the deficiencies and implement the related recommendations made by the independent review organizations.

We also continued our series of reviews of salmon recovery programs, auditing a tribal subgrantee funded by NOAA's Pacific Coastal Salmon Recovery Fund. Much like the audits we detailed in our 2004 and 2005 semiannual reports, we questioned costs and noted some administrative weaknesses. (See page 30.)

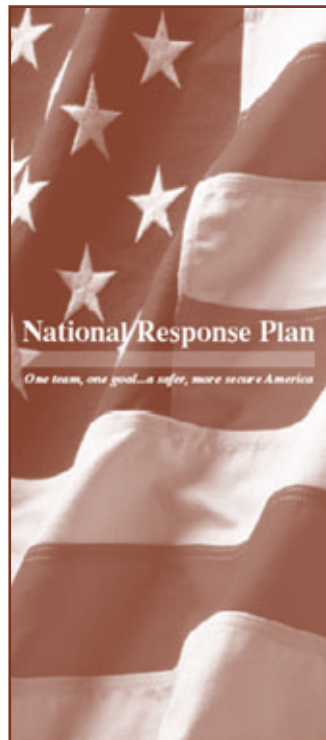
Future challenges include NOAA's efforts as a steward of marine resources, the agency's consultation process, and its management of fisheries and marine mammals.

Challenge 9

Aggressively Monitor Emergency Preparedness, Safety, and Security Responsibilities

The damage and disruption caused by the Gulf Coast hurricanes last summer intensified scrutiny of federal preparedness to a level not seen since 9/11. These disasters rightly raised serious questions about the nation's readiness to respond to emergencies—whether natural or man-made—given the attention and resources dedicated to security and preparedness by all levels of government over the past 4 years. They underscored the need for and responsibility of agencies to maintain robust emergency preparedness programs and disaster recovery plans to protect their employees, facilities, and critical operations.

Source: http://www.dhs.gov/interweb/assetlibrary/NRP_Brochure.pdf



The Department of Commerce has a dual responsibility in this arena: not only must it be ready to protect 35,000+ employees and hundreds of facilities, but because several Commerce programs are critical to national preparedness and recovery efforts, it must support U.S. efforts to prepare for, respond to, and promote recovery from major disasters. The President's National Response Plan assigns responsibilities to several Commerce agencies. For example, NTIA gives on-call support to the federal emergency communications coordinator and keeps radio frequencies open during emergencies. NOAA issues long- and short-term forecasts about severe weather events and assesses areas of greatest marine or atmospheric hazard in their aftermath. The Economics and Statistics Administration assesses the economic impacts of major natural and manmade disasters.

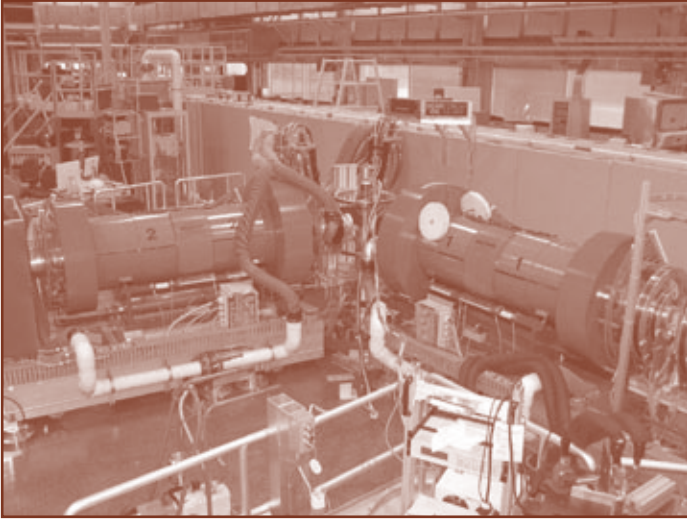
We continue to monitor Commerce's progress in resolving departmental emergency preparedness and security weaknesses we identified in assessments conducted in 2002 and 2005 (see March 2002 and September 2005 semiannual reports, pages 77 and 37, respectively). Although Commerce has made significant improvement in emergency preparedness to address vulnerabilities, we found, among other things, the need for better departmental guidance and oversight of emergency programs, risk assessments, occupant emergency plans, and security forces at its domestic operations, as well as better oversight of security upgrades and greater attention to security at its overseas offices.

Challenge 10

Enhance Export Controls for Dual-use Commodities

The Bureau of Industry and Security (BIS) administers the U.S. dual-use export licensing and enforcement system designed to prevent hostile nations and terrorist groups from acquiring technologies and materials that have both civilian and military applications. But how effective are existing export controls? And how can we prevent export control policies and practices from hampering U.S. trade opportunities and competitiveness but still protect U.S. national security and foreign policy interests? Striking an appropriate balance remains a significant challenge for BIS and Commerce.

The National Defense Authorization Act (NDAA) for FY 2000 directed the inspectors general of Commerce, Defense, Energy, and State, in consultation with the directors of the Central Intelligence Agency and Federal Bureau of Investigation, to report to Congress each year through 2007 on the adequacy and effectiveness of existing export controls and whether they effectively prevent entities of concern from acquiring sensitive U.S. technologies. (The Office of Inspector General at the Department of Homeland



Components of the high-tech Neutron Spin Echo Spectrometer at the NIST Center for Neutron Research in Gaithersburg, Maryland, are controlled for national security reasons, but they are tightly encased and could not be easily observed.

Source: NIST

Security also has participated since its establishment in 2003.) In addition, NDAA for FY 2001 required the inspectors general to report on the status or disposition of recommendations made in prior NDAA reports.

China's Military Plans Cause Concerns About Export Controls

With six of the eight required reviews completed, Commerce OIG turned its attention to an area of immense concern to meet the NDAA's FY 2006 requirement—evaluating the effectiveness of U.S. controls on exports of dual-use goods and technology to

China. According to the former acting Under Secretary for Industry and Security, the security concerns the U.S. has about China stem from the risk of diverting sensitive dual-use items and technology to Chinese military programs as the country carries out its stated plan to modernize its conventional military forces. He further stated that the prospect of “immense potential benefits from expanding trade” heightens such concerns and intensifies the challenges to U.S. dual-use export controls, which were never intended to be connected to economic policy.¹¹

Our 2006 review also assessed whether (1) the federal agencies that handle the dispute resolution process for review of license applications for exports to China coordinate effectively, (2) there is potential for diversion of sensitive commodities from Hong Kong to China, and (3) the end-use check program is effective. The 2006 review also examined what activities Commerce bureaus are engaged in pursuant to the 1979 U.S. and China Science and Technology Agreement and whether they are adhering to export control regulations. (See page 13.)

Our review determined that the various federal export licensing agencies coordinate adequately during the dispute resolution process for China export license applications, but we identified a number of weaknesses in BIS' administration of export controls involving that country. We recommended some actions we believe will address these weaknesses. The bureau generally agreed and outlined some of the work it already is doing to improve them.

As part of our follow-up, we also examined the status of recommendations from our six prior reviews and determined that 24 recommendations remain open, but BIS and other Commerce bureaus have made significant progress on a number of them since our March 2005 report. We will continue to monitor BIS' efforts to improve dual-use export controls in FY 2007, when we complete the last of these reviews.

¹¹ Testimony of former Acting Under Secretary for Industry and Security Peter Lichtenbaum at the U.S.-China Economic and Security Review Commission Hearing, June 23, 2005. Accessed April 4, 2006, at <http://www.bis.doc.gov/news/2005/USChinaReview.htm>.



BUREAU OF INDUSTRY AND SECURITY

NDA Review Examines Controls Over Dual-Use Exports to China

The Bureau of Industry and Security is primarily responsible for administering and enforcing the nation's system for controlling exports of sensitive dual-use goods and technologies. BIS' major functions include formulating and implementing export control policy; processing export license applications; conducting various policy, technical, and economic analyses; promulgating regulations; conducting industry outreach; and enforcing the Export Administration Act and regulations. BIS is divided into two units:

Export Administration implements U.S. export control and nonproliferation laws and policies through export licensing, commodity classifications, and advisory opinions; technical, economic, foreign availability, and policy analyses; promulgation of regulations; and industry outreach. It also conducts various defense industry activities and enforces industry compliance with arms control treaties.

Export Enforcement participates in reviews of export license applications and conducts criminal and administrative investigations relating to the export control portions of the Export Administration Act and regulations. It also administers and enforces the antiboycott provisions of the act and regulations.

To comply with the FY 2006 reporting requirement of the National Defense Authorization Act for FY 2000, the inspectors general from the departments of Commerce, Defense, Energy, Homeland Security, and State, and the Central Intelligence Agency agreed to conduct a review of U.S. export controls for China.¹² The U.S. government has serious concerns about China's record of proliferating weapons of mass destruction, the adequacy of its export control policies, and its efforts to obtain sensitive technologies to advance its military capabilities. In light of those issues, it is critical that the U.S. government implement effective controls over U.S. exports to China.

Within Commerce, we evaluated (1) BIS' export control policies, practices, and procedures regarding China to determine if they are consistent with relevant laws and regulations; (2) coordination among federal agencies during the dispute resolution process for export license applications involving China; (3) the potential for diversion of sensitive commodities from Hong Kong to China; and (4) BIS' end-use check program in China and Hong Kong. We also looked at what activities Commerce bureaus are engaged in pursuant to the 1979 U.S. and China Science and Technology Agreement and whether they are adhering to export control regulations.¹³

Our review found that the coordination between the various federal export licensing agencies is adequate during the dispute resolution process for export license applications involving China. We identified some concerns related to U.S.-China export control activities in the areas of BIS regulations and policies, end-use check programs in China and Hong Kong, and efforts to ensure compliance with license conditions. We made nine recommendations to address the issues we identified.

We also reviewed the National Institute of Standards and Technology's and the National Oceanic and Atmospheric Administration's active protocols under the 1979 agreement and found that, overall, both appear to be complying with export control regulations.

Bureau Response

In its response to our report, BIS generally agreed with our recommendations and indicated it is taking steps to implement changes and make improvements in a number of areas. NOAA also agreed overall with OIG's findings although the report contained no specific recommendations for NOAA. (*Office of Inspections and Program Evaluations: IPE-17500*)

¹² Although not mandated by the NDA for FY 2000, the Department of Homeland Security Office of Inspector General participated in this year's review.

¹³ The NDA for FY 2003 [Public Law 106-398, Section 1207(d)(2)(F)] requires the Commerce Office of Inspector General to assess the extent to which programs and activities conducted under the *Agreement Between the Government of the United States of America and the Government of the People's Republic of China on Cooperation in Science and Technology*, signed in Washington, D.C., on January 31, 1979, as amended and extended are carried out in compliance with U.S. export control laws and regulations, especially those governing deemed exports.



Cargo traffic crosses from Hong Kong into Shenzhen, China, at the Lok Ma Chau border control point.

Source: OIG

Export Control Follow-up Review Identifies Remaining Open Recommendations

The FY 2001 National Defense Authorization Act requires the Office of Inspector General to report annually to Congress on the status of export control recommendations made in prior-year OIG reviews. This year's follow-up covered annual reviews dating back to 2000.¹⁴ A total of 24 recommendations, including 17 to BIS, remain open from all but the March 2000 report. This represents good progress by the Department.

March 2005

This review evaluated the U.S. export licensing process for chemical and biological commodities to determine whether current practices and procedures deter the proliferation of chemical and biological weapons. We looked at whether the process is timely,

complies with statutory and regulatory requirements, and takes the cumulative effect of prior technology transfers into consideration. We also assessed whether the various agencies involved in the export license review process share data and information and whether the dispute resolution process between the agencies works. We reviewed BIS' interactions with the Australia Group, and procedures for placing newly controlled items on the Commerce Control List (CCL). We made 11 recommendations to BIS and 5 remain open. Those open involve providing clear guidance and more information for licensing officers, developing a method to track the cumulative effect of dual-use exports, adding items to the CCL, requiring entities registered under other U.S. government agencies to comply with Export Administration Regulations, and doing more outreach to chemical exporters.

March 2004

This review looked at whether current deemed export control laws and regulations adequately protect against the transfer of controlled U.S. technologies to foreign nationals from countries and entities of concern while they are in the United States. We made a total of 20 recommendations: 7 each to BIS and NIST, 5 to NOAA, and 1 to the Office of the Secretary. These mainly pertained to recommended revisions in export control regulations and policies, as well as bureau compliance with licensing requirements. During this reporting period, two recommendations made to BIS were closed. After studying the country of birth recommendation concerning BIS' deemed export licensing policy for certain foreign nationals, BIS decided not to adopt it and we agreed. We also closed our recommendation concerning BIS' deemed export-licensing policy for certain foreign nationals because it was no longer applicable. Additionally, partially as a result of OIG recommendations, BIS is

¹⁴ All recommendations from our March 2000 review, *Improvements Are Needed in Programs Designed to Protect Against the Transfer of Sensitive Technologies to Countries of Concern* (IPE-12454), have been addressed. Open recommendations remain in the following reports: March 2001, *Management of the Commerce Control List and Related Processes Should Be Improved* (IPE-13744); February 2002, *BXA Needs to Strengthen its ECASS Modernization Efforts to Ensure Long-Term Success of the Project* (IPE-14270); March 2002, *Interagency Review of Federal Automated Export Licensing Systems* (D-2002-074); March 2003, *Improvements Are Needed to Better Enforce Dual-Use Export Control Laws* (IPE-15155); March 2004, *Deemed Export Controls May Not Stop the Transfer of Sensitive Technology to Foreign Nationals in the U.S.* (IPE-16176); March 2005, *The Export Licensing Process for Chemical and Biological Commodities Is Generally Working Well, But Some Issues Need Resolution* (IPE-16946).

formalizing a consultative process to review the deemed exports policy and the other open recommendations.

NIST completed action on three recommendations during this reporting period. Neither NOAA nor the Office of the Secretary has completed action on the recommendations pertaining to them. However, both have made progress toward closure.

March 2003

This review made 55 recommendations to BIS and 4 to ITA regarding their efforts to enforce export control laws and regulations, including those involving investigative processes, interactions with other law enforcement agencies and the intelligence community, license determinations, monitoring of compliance with license conditions, outreach to U.S. exporters, and end-use checks. All but two BIS recommendations have been resolved. Those open deal with unfavorable pre-license check results and automating license determination referrals. All ITA recommendations have been resolved.

February 2002

In this report, we focused on BIS' plans for and progress toward modernizing its Export Control Automated Support System for

dual-use export licensing. Four of our 13 recommendations remain open. These involve identifying and securing adequate funding, determining system and security requirements, completing the target architecture, and selecting a location to house the system.

March 2002

In addition to the February report we issued on BIS, the interagency OIG review team issued a report that contained four recommendations for the bureau. One involving establishing a common repository for all unclassified licensing data records remains open.

March 2001

Two of 14 recommendations remain open from our review of BIS policies and procedures for designing and administering the Commerce Control List: work with the National Security Council to assess and possibly revise commodity classification guidance and procedures, and provide State with copies of the final determinations on commodity classifications that it reviews. (*Office of Inspections and Program Evaluations: IPE-17935*)



ECONOMIC DEVELOPMENT ADMINISTRATION

Audit Reveals Problems with Vermont Revolving Loan Fund

The Economic Development Administration

was established by the Public Works and Economic Development Act (PWEDA) of 1965 to generate new jobs, help retain existing jobs, and stimulate private investment in economically distressed regions of the United States. EDA continues to fulfill this mission under the authority of PWEDA, as amended by the Economic Development Reauthorization Act of 2004. Based on local and regional comprehensive economic development strategies, EDA works in partnership with state and local governments, regional economic development districts, public and private nonprofit organizations, and Indian tribes to help distressed communities address problems associated with long-term economic deterioration and sudden and severe economic dislocations, including recovery from the economic impact of natural disasters, the closure of military installations and other federal facilities, changes in trade patterns, and the depletion of natural resources. EDA provides eligible recipients with technical assistance, as well as grants for public works, planning, training and research, and economic adjustment assistance.

In 1978 a Vermont economic development council received a \$720,000 revolving loan fund (RLF) grant to address long-term economic deterioration. No matching funds were required. In July 1999, EDA amended the grant and transferred the assets and administration of the RLF to a nonprofit development corporation. As of December 2004, the RLF had 15 loans outstanding, with principal balances totaling \$274,911.

We audited the RLF records covering 2002 through 2004. We found that the corporation had failed to comply with a number of grant requirements.

Conflicts of Interest

As fund administrator, the corporation extended a \$10,000 line of credit to the RLF's executive director. EDA regulations and award terms and conditions strictly prohibit loans to program employees and officials. Corporation officials did not agree that the loan violated EDA conflict of interest rules, noting that the executive director is not an employee but is under contract to the RLF program to provide part-time services as needed. Employee or not, his position as executive director and his membership on the corporation's governing board preclude him from benefiting from the RLF program.

Also during the audit period, a company owned by the executive director charged \$1,200 to the RLF for his services to the program, and a firm owned by the fund's president charged more than \$24,000 for secretarial services and office space. The corporation did not have written contracts supporting the services, but did have a written agreement for the office space. In all three cases, however, it lacked the required written approvals from EDA allowing these arrangements and certifying that the benefits to RLF officials were inconsequential.

Excess Cash Reserves and Administrative Noncompliance

We found the corporation, as fund administrator, had excess cash reserves in each of the 3 years covered by our audit: more than \$94,000 in 2004 and \$149,000 for calendar years 2002 and 2003. The corporation sometimes extended loans without requiring borrowers to complete formal loan applications and failed to comply with numerous EDA and federal reporting requirements. For example, it did not require formal loan applications in all cases, adequately document loan packages in RLF files, prepare annual plan certifications, obtain required annual ("single") audits of RLF funds, or submit semiannual reports on time, if at all.

Recommendations

We recommended that EDA require the grant administrator to (1) deposit \$94,013 into a separate interest-bearing account and remit any unused excess funds remaining in the account after 6 months to the U.S. Treasury; (2) provide written documentation that the RLF line of credit extended to the executive director has been terminated and the loan repaid in full; (3) obtain EDA approval of all related party contracts or repay the RLF for expenses charged under those agreements; (4) ensure all RLF loans have formal written loan applications including appropriate supporting documents and complete files; (5) obtain single audits as required by OMB Circular A-133; and (6) correct other administrative findings. (*Atlanta Regional Office of Audits: ATL-17285*)

Pennsylvania RLFs Had \$4 Million in Excess Cash

Between August 1982 and January 1994, EDA awarded three grants to the Commonwealth of Pennsylvania to establish revolving loan funds that would address actual or threatened economic dislocations and promote business development throughout the state. Grant amounts ranged from \$1 million to \$2.5 million and required equal match amounts from the Commonwealth.

EDA amended all three RLF grants in 1997 to name the state's economic development department as the grantee, and again in early 2005 to relax lending requirements and expand the pool of targeted beneficiaries and businesses eligible for loans. As of June 2005, the RLFs had a combined total of 26 outstanding loans with principal balances totaling \$1.3 million.

We conducted a financial and compliance audit of the three RLFs to determine their financial status including fund balance, capital utilization, matching funds, program income, and loan collections. We also assessed whether the grantee had complied with applicable federal laws and regulations and RLF terms and conditions, charged allowable administrative costs, and had achieved RLF performance goals.



Source: <http://www.pachamber.org/ba/images/dced-global.gif>

Huge Cash Balances and Little Loan Activity

For the 3 years covered by our audit (July 2002 through June 2005), each RLF carried excess cash reserves that had grown to a total of \$4 million—well in excess of the 25 percent maximum allowed by EDA regulations. During the same period, the funds generated only five new loans. In response to this finding, the grantee reported that EDA has since allowed it to combine the three RLFs and that as of March 2006, it had approved 23 new loans totaling \$3.8 million, which reduced cash on hand to less than \$200,000. EDA, however, said the funds must be maintained and reported separately and the grantee did not document the new loans or the RLF against which they were made.

We recommended that EDA direct the Commonwealth to deposit \$4,002,983 into a separate interest-bearing account and remit the interest to the U.S. Treasury; use its cash reserves within 6 months to make direct loans or loan guaranties; and return any unused funds remaining after 6 months to the federal government. Implementing this recommendation will put more than \$2 million in federal funds to better use.

Noncompliance with RLF Administrative Requirements

Our audit also disclosed that the Commonwealth consistently failed to comply with numerous federal and EDA grant requirements over the past 3 years: it did not submit three of six semiannual reports, submitted the remaining three late, did not subject the RLFs to single audits or annually certify that the loan programs are operating in accordance with grant terms and conditions. The grantee could not document its handling of three defaulted loans nor the number of jobs saved and created as a result of four active loans. We did, however, find that the grantee had exceeded its goals for leveraging private investment for each fund by 100 percent.

To correct the administrative deficiencies noted, we recommended that EDA direct the Commonwealth to submit timely semiannual reports and annual plan certifications as required; document its efforts to collect the three defaulted loans; and include the RLFs in the Commonwealth's single audit report. (*Atlanta Regional Office of Audits: ATL-17545*)



ECONOMICS AND STATISTICS ADMINISTRATION

2006 Site Test Produces Mixed Results Handheld Computer Technology, Training Among Problem Areas Noted

The Economics and Statistics Administration

analyzes economic developments, formulates policy options, and produces a major share of U.S. government economic and demographic statistics. The chief economist monitors and analyzes economic developments and directs studies that have a bearing on the formulation of economic policy. ESA has two principal agencies:

Bureau of the Census is the country's pre-eminent statistical collection and dissemination agency. It publishes a wide variety of statistical data about the nation's people and economy, conducting approximately 200 annual surveys, in addition to the decennial census of the U.S. population and the decennial census of industry.

Bureau of Economic Analysis prepares, develops, and interprets the national income and product accounts (summarized by the gross domestic product), as well as aggregate measures of international, regional, and state economic activity.

The Census Bureau tested another critical component of its reengineered decennial strategy for the 2010 decennial during this past semiannual period—automated address canvassing—in two locations: a portion of Travis County, Texas, which included parts of the city of Austin and its suburbs, and the Cheyenne River Reservation and Off-Reservation Trust Land in South Dakota.

Address canvassing is designed to keep the bureau's address file and digital map database current and complete. The operation involves sending temporary staff (called "listers") equipped with handheld computers into the field to verify, update, add, or remove addresses; add and delete streets to correct computer maps; and annotate address locations on the maps. The information collected during canvassing has a direct bearing on the bureau's ability to accurately count the population. Census planned to use lessons learned from the 2006 test to gauge the feasibility and cost of automating the operation, evaluate its impact on data quality, and refine requirements of the Field Data Collection Automation (FDCA) contract before awarding it in March 2006.

A multidisciplinary team from our offices of Audits, Inspections and Program Evaluations, and Systems Evaluation reviewed selected aspects of the address canvassing operation. We assessed the functionality of the handheld computers and associated systems involved in automating the operation, methods for correcting the address lists and maps, quality control processes, outreach activities, and various management, administrative, and logistical issues.

We concluded that the bureau only partially achieved its test objectives while missing valuable learning opportunities that might have enhanced preparations for and execution of the 2010 decennial. We also noted that several operational weaknesses we had identified in the 2004 test¹⁵ were problems in the address canvassing effort as well.

Unreliable Handheld Computers

Census had great difficulty developing the handheld computer software for address canvassing. It could not complete software testing in time to keep to the original canvassing schedule, so it delayed the operation by 1 month to continue pursuing improvements, but still could not eliminate several serious problems. Bureau officials decided to proceed with canvassing to learn as much as possible about using the handheld units. As in the 2004 test of automated nonresponse follow-up, the handheld computers suffered from frequent crashes, data loss, slow performance, and other problems. Because of inadequate software development, the handheld units lacked some key capabilities—for example, maps on the devices could not be updated to add missing streets, an important function in a rapidly growing

¹⁵ U.S. Department of Commerce Office of Inspector General, September 2004. *Improving Our Measure of America: What the 2004 Census Test Can Teach Us in Planning for the 2010 Decennial Census*, Report No. OIG-16949. Washington, D.C.: Commerce OIG.

area such as Travis County. And last minute changes to the units rendered some of the training material out of date, which added to the listers' difficulties using the units. As a result, neither test site reached its production numbers and canvassing was extended an additional 10 days in an attempt to make the address list as complete as possible for subsequent 2006 test operations.

GPS Problems

The global positioning system functions for collecting address coordinates worked only intermittently and were often slow to activate. The bureau's preliminary test results suggest that the coordinate collection software on the handheld units may have incorrectly calculated address coordinates. This problem, in conjunction with the unreliability of the handhelds, diminishes what the bureau can learn from the test. GPS functionality needs to be fixed and tested under real operating conditions before the 2010 decennial to see whether it meets performance and procedural requirements.

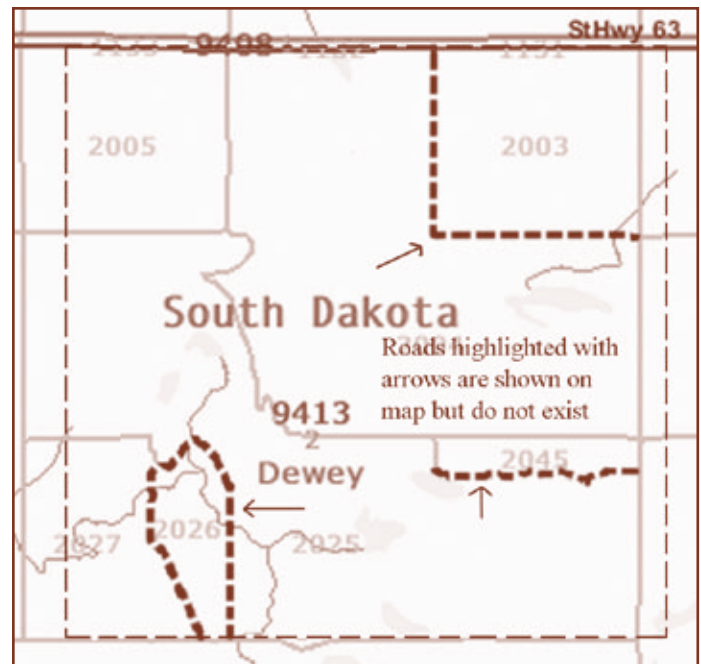
Uncertain Contract Requirements

A major purpose of the 2006 site test was to firm up FDCA requirements for producing the handheld computers. As part of the source selection process, contractors built prototypes that have basic address canvassing capabilities and delivered them to Census in December 2005. Bureau officials believe that requiring prototypes as part of the contract award process increases the likelihood of having a working system in place by the start of the dress rehearsal for address canvassing, which begins in April 2007. The chosen contractor will have to make needed changes to the prototype in the year between contract award (March 2006) and the kickoff of dress rehearsal a year later.

The FDCA contract was awarded on March 30, before bureau officials had established a process for transferring relevant 2006 test information to the contract or identifying needed changes to the contract resulting from the test. Thus, the opportunity for competitively negotiating the cost of changes to address canvassing requirements prior to contract award has passed.

Map Errors and Inadequate Canvassing Procedures

Inaccuracies in the handheld computer maps, such as nonexistent or misplaced roads, caused problems in 9 of the 44 canvassing efforts we observed: listers in these instances spent excessive time trying to locate their routes and often did not fully canvass their assignment area, may have missed housing units, and failed to correct maps. Ambiguous and incomplete procedures for updating maps as well as complex block configurations further compromised listers' ability to revise address lists.



In this square-mile block in South Dakota (outlined), several roads shown on the map did not exist.

Source: American FactFinder

Test Site Limitations

The bureau's evaluations of the 2000 decennial suggest that tens of millions of dollars could potentially be saved by increasing the number of questionnaires provided through routine mail delivery rather than hand delivery. The evaluations recommended researching the expansion of post office delivery of questionnaires, especially outside cities in the Southeast and Midwest and in entire states such as Iowa, Wisconsin, Michigan, Ohio, North Carolina, and Virginia. Because it may not be feasible for the same area to have both hand delivery and postal service delivery, Census needs to determine which addresses are sufficiently clustered to shift bureau delivery of questionnaires to postal service delivery. The impact of such shifts should be tested in the 2008 dress rehearsal to make sure that postal delivery systems and procedures do not inadvertently contribute to the undercount (by missing people who had received hand-delivered questionnaires) or the overcount (by delivering to the same address more than once).

Weaknesses in Quality Control, Training, and Administrative Policies

Quality control. Census tested a new quality control process designed to update the address list more quickly. In the past, address deletions and house number changes were verified after address canvassing concluded. In the 2006 test, verification occurred as part of the canvassing operation—as soon as an individual assignment area was canvassed, quality control listers using handheld computers verified the data collected. Despite technical difficulties with the handheld units, the new procedure worked. But weaknesses in lister training and management reporting, as well as the bureau's failure to analyze quality control data during the operation, undercut the overall success of the process.

Training methodology and guidance. We noted a number of other training-related issues, such as the following: (1) the bureau used its traditional training approach for temporary staff, in which an instructor reads the training manual word-for-word to trainees. Past evaluations found problems with this approach and suggested enhancements to better prepare decennial workers to do their jobs. (2) Census gave no guidance on how the test sites could compress the 35-hour daytime training into night classes that encompassed fewer hours. (3) Less than 5 percent (10 of 216) of listers were assigned to training classes taught by their crew leaders in Travis County. Lister who were not taught by their own crew leader oftentimes had trouble starting fieldwork because their leader was teaching another class and had not organized team assignments.



Some Census blocks sprawled across multiple physical streets and landscapes.

Source: American FactFinder

Administrative policies. The overtime policy as implemented in the 2006 test was unclear and may have hampered the effectiveness of the operation. The policy for cell phone reimbursement made it difficult for staff to fully recoup the cost of work-related calls. As in the 2004 test, field supervisors often used more minutes than were eligible for reimbursement.

Inadequate Focus on Outreach

The partnership program—a public awareness effort between Census and public and private organizations—is a key component of outreach for the decennial. In Census 2000 the bureau hired some 690 “partnership specialists,” who worked with more than 140,000 organizations to increase participation among hard-to-reach groups. Census spent \$142.9 million on the program (2 percent of the total cost of the 2000 decennial)¹⁶ and expects to implement a similar program for the 2010 decennial. But Census has yet to assess new methods for increasing response among American Indians and other hard-to-enumerate populations, even though the 2006 test sites contained such groups. It also has not identified ways to collect quantifiable data for evaluating the success of its outreach efforts and lacks a fully functional database containing historical and logistical details about Census partners—an important resource for partnership specialists looking to develop new or reestablish old relationships for publicizing the 2010 decennial.

Unclear Rationale for 100 Percent Canvassing

Problems with the address canvassing operation also raise questions about the merits of the bureau's plan to canvass all housing units—an estimated 115 million addresses—in 2010 to update the master address file. Census originally intended to target selected areas for canvassing but abandoned this strategy with little explanation. Canvassing the entire nation will increase life-cycle costs of the decennial by an estimated \$38 million as compared to Census's original plan for 2010.¹⁷ Census needs to analyze the costs and benefits of 100 percent canvassing and consider whether alternative, less costly strategies are feasible for developing the address list for the 2010 decennial.

Missed Opportunities for Improving 2010 Operations

The bureau only partially achieved its 2006 test objectives for address canvassing: it gained only limited information about automation and related decennial procedures, which diminished the value of the test as a tool for enhancing 2010 operations. We believe the bureau could have earned a better return on its investment in the test if the handheld computers had been more reliable and if it had evaluated other aspects of address canvassing, such as options for reducing hand delivery of questionnaires, quantifying the impact of its partnership efforts, or improving approaches to

¹⁶ Costs are from October 1997 through September 2000, with \$65.1 million spent on salaries and benefits and the remainder for nonpayroll expenditures such as travel, training, supplies, and postage. From *Review of Partnership Program Highlights Best Practices for Future Operations*, GAO-01-579, August 2001.

¹⁷ Teresa Angueira, March 1, 2004. “Estimated Life Cycle Costs for the Reengineered 2010 Census of Population and Housing,” 2010 Census Planning Memoranda Series No. 27. Washington, D.C.: U.S. Census Bureau.

training. In addition, the bureau should have collected relevant cost and benefit data and considered other alternatives to 100 percent address canvassing.

Bureau Response

Census officials concurred with some of our findings and recommendations, but strongly disagreed with others. In particular, the bureau disagreed that the unreliable handheld computers interfered with the test—maintaining that the 2006 test was intended to assess *the feasibility of the concept* of automated address canvassing and that reaching certain production numbers and receiving updates for all aspects of address canvassing were not the real objective. Census officials also disagreed with our findings that valuable learning opportunities were missed during the address canvassing operation and that an analysis of the costs and benefits of 100 percent address canvassing is needed. In some cases, Census asked that we add more context to sections of our report to provide a broader picture of the situation for those not familiar with the matters discussed.

We stand by our finding that the unreliable handheld computers interfered with the 2006 address canvassing operation and consequently diminished what the bureau could learn from the test. The *Census 2006 Test Project Management Plan* described research questions that, if answered, would provide essential information for 2010 census planning—including the degree to which automation reduces the time required to collect and process the address canvassing data. The poorly performing handheld units prevented the bureau from answering these questions.

With regard to 100 percent canvassing, we believe the bureau has an obligation to identify the most cost-effective method for maintaining an address list of requisite quality to support the 2010 decennial goals for accuracy and cost containment. We therefore reiterate the need for thorough analysis of its decision to canvass the entire nation. (*Offices of Audits, Inspections and Program Evaluations, and Systems Evaluation: OIG 17524*)

Audits Unresolved for More Than 6 Months

ITS Services, Inc.

In March 2005, we reported that 3 of the 32 task orders awarded under a Virginia IT services contract were audited to determine whether the costs billed by the firm were reasonable, allowable, and allocable under contract terms and conditions and federal regulations. We found that the firm had failed to comply with numerous contract and federal requirements, and we questioned more than \$8.5 million in direct labor and reimbursable costs.

Computer & High Tech Management, Inc.

We reported in our September 2005 *Semiannual Report* (page 14) the results of audits of 2 of the 21 task orders for another Virginia firm providing IT services to Census. We sought to determine whether the firm had complied with contract terms and conditions and federal regulations and had billed Census for work performed in accordance with specifications of the task order. We found that the firm failed to comply with numerous contract and federal requirements, which caused us to question more than \$10.7 million in direct labor and other reimbursable costs.

We have suspended audit resolution on both of these contract audits pursuant to an agreement with Census.



INTERNATIONAL TRADE ADMINISTRATION

CS China Post Presents Challenges, Opportunities for Commerce

The International Trade Administration is responsible for trade promotion and policy issues associated with most nonagricultural goods and services. ITA works with the Office of the U.S. Trade Representative to coordinate U.S. trade policy. ITA has four principal units:

Market Access and Compliance develops and implements international economic policies of a bilateral, multilateral, or regional nature, and participates in trade negotiations. Its main objectives are to obtain market access for American firms and workers and to ensure full compliance by foreign nations with trade agreements signed with the United States.

Manufacturing and Services undertakes industry trade analysis, shapes U.S. trade policy, participates in trade negotiations, organizes trade capacity building programs, and evaluates the impact of domestic and international economic and regulatory policies on U.S. manufacturers and service industries.

Import Administration defends American industry against injurious and unfair trade practices by administering the antidumping and countervailing duty laws of the United States and enforcing other trade laws and agreements negotiated to address such trade practices.

U.S. Commercial Service promotes the export of U.S. products and helps small and medium-sized businesses market their goods and services abroad. It has 108 domestic offices and 146 overseas posts in 80 countries.

Over the last decade, China has rocketed to the status of third largest trading nation in the world and is the United States' fifth largest export market. China's average growth rate has been 10 percent since 1993, and the country's economic and geopolitical importance has increased dramatically. Although U.S. exports to China totaled only \$41.8 billion in 2005, Chinese imports to the United States exceeded \$243.5 billion,¹⁸ resulting in a U.S. trade deficit with China of approximately \$201.6 billion. Both the U.S. government and business sectors have great concerns about this trade deficit, as well as China's intellectual property rights enforcement, currency valuation, technical barriers to trade, marketplace inequities, restrictions on trading and distribution rights, and closed regulatory environment.

The Department of Commerce has a major presence in China, with staff from three of its bureaus assigned to that country. The U.S. Commercial Service (CS), which is responsible for providing export assistance to U.S. firms and protecting U.S. business interests, has its largest operation in China, with offices in Beijing, Shanghai, Guangzhou, Chengdu, and Shenyang. The post employs 17 officers and 89 local staff, and its budget in fiscal year 2005 was approximately \$8.5 million.



Source: Commercial Service

We conducted an on-site inspection of CS' China post in September 2005, focusing primarily on the post's management, program operations, and financial and administrative practices. During our inspection, we also met with representatives of other Commerce organizations in China, including officers representing the Bureau of Industry and Security, Market Access and Compliance, Import Administration, and the U.S. Patent and Trademark Office. In addition, we spoke with other U.S. embassy officials, U.S. companies doing business in China, and nongovernmental business organizations that are among Commercial Service's trading partners in China.

Overall, we found the post is generally doing a good job of providing export assistance to U.S. companies and collaborates well with its trade partners, other components of the U.S. mission, the Department, and other government agencies. However, we also identified a number of issues, challenges, and opportunities that warrant the attention of senior CS and departmental managers.

¹⁸ U.S. Census Bureau, Trade in Goods (Imports, Exports and Trade Balance) with China, see www.census.gov/foreign-trade/balance/c5700.html, accessed February 13, 2006.

Commerce's China Mission Faces Unique Management Challenges and Opportunities

Commerce must be able to depend on a seamless team effort from its staff in China and its various headquarters units that deal with China-related issues. Policy disagreements, confusing lines of authority, logistics issues, and conflicting objectives can hinder the effectiveness of Commerce's efforts in China, especially as the Department's presence in China and the post's extremely high workload and stream of visitors increase. To deal with this challenge, we recommended the Department develop appropriate management lines of authority to ensure that Commerce organizations cooperate effectively. We also recommended that Commerce bureaus with positions in China develop effective human resource strategies that forecast future staffing needs and provide a continuous supply of qualified officers with adequate China-specific expertise.

The American Trading Center Program Is New and Largely Untested

CS is implementing its American Trading Center (ATC) initiative in 14 major commercial centers throughout China in order to provide CS products and services in these cities, which do not have CS offices. The ATC program was developed in partnership with the American Chamber of Commerce in Beijing and the Chinese Council for the Promotion of International Trade, a state-sanctioned Chinese trade organization. At the time of our inspection, the Shanghai consular district had made the most progress on this initiative. Several of the other offices were not yet ready to provide services to American companies, and work remains to be done to build the program. We recommended CS complete the program's implementation in the Beijing, Chengdu, Shenyang, and Guangzhou consular districts, following the successful model of Shanghai. Additionally, in the Shanghai and Guangzhou offices, CS needs to clearly define the role of all staff that support CS China's trade show initiative, an effort associated with the ATC program. We also recommended CS develop Chinese-language marketing materials for the ATC program and establish clear procedures to process refunds for unsatisfied ATC customers.

CS also should closely monitor the efforts of the Chinese Council, its primary partner for the ATC program, to ensure that the local subcouncils provide quality services to U.S. companies, because promoting U.S. imports is not one of that organization's main objectives. CS should also make sure that U.S. companies using ATC services have realistic expectations of what the service can achieve and are given the opportunity to use CS' export counseling services.



China is CS' largest post, with offices in Beijing, Shanghai, Guangzhou, Chengdu, and Shenyang. The post employs 17 officers and 89 local staff, and its budget in FY 2005 was approximately \$8.5 million.

Source: <http://www.export.gov/china/contactusmap.asp>

CS Should Evaluate the Future of the Commercial Center Program

The commercial center in Shanghai opened in July 1996 and was one of four commercial centers created under the Jobs Through Exports Act of 1992.¹⁹ The centers were intended to promote public-private cooperation on trade promotion and create synergies by collocating CS personnel with federal, state, and private sector trade partners in the centers. The Shanghai Commercial Center has six trade partners collocated in its facilities—three states, one city, and two trade associations. We found that CS Shanghai is not working closely with most of its collocated partners and has not integrated them into the post's operations. CS has closed two of the original four centers, and the Shanghai center is expected to close when the CS office moves into a new U.S. consulate compound in approximately 3 years. We recommended that CS management determine a long-term strategy for the entire commercial center program and improve cooperation with its current commercial center partners.

CS' Unsupported Performance Results Reporting Is a Recurring Problem

CS' primary performance goal is to "expand [the] U.S. exporter base." Measuring progress toward that goal relies on verified numbers of export transactions facilitated by CS among new and existing U.S. exporters. We found CS China, with the exception of its Shanghai office, has few verification procedures in place

¹⁹ 15 USC § 4723a.

to support its claimed performance results, which show dramatic yearly increases. Our analysis of 126 export success stories for CS China revealed approximately 44 percent were not adequately supported by written documentation. Documentation and success story verification issues are not new. This is a recurring problem OIG has noted in its last three CS overseas post inspections—CS Turkey,²⁰ CS Greece,²¹ and CS India²²—and its review of the Pacific Northwest export assistance center network.²³

Before performance statistics are presented to Congress and OMB, CS must confirm they are reliable and meet the reporting guidelines outlined in the *CS Operations Manual*. However, the guidelines in the manual are not specific enough to provide adequate guidance on maintaining supporting documentation of the export success stories prepared by CS trade specialists. We recommended CS revise the *CS Operations Manual* to present clear and precise requirements for written documentation and verification of each element of an export success, including written verification from the client confirming CS assistance, and the reported benefit to the exporter, the date of the success, and any reported dollar value, and inform all staff of the changes. We also recommended that CS enhance the first- and second-level review process for export successes and require each individual and office receiving credit for one to maintain documentation supporting the claim of value-added assistance.

CS Products and Services Satisfy Most Clients

CS has multiple products and services to help U.S. exporters reach the global market, including customized services and market research, trade events, international partner matching, and one-on-one counseling. During fiscal years 2004 and 2005, CS China provided clients more than 600 products and services. We reviewed customer satisfaction surveys for its products and services, and CS China's market research reports and marketing materials used to reach prospective U.S. exporters to China and expand its potential client base. We found these efforts are satisfying most of CS' clients, but CS should continue to monitor the quality of its products and services.

²⁰ U.S. Department of Commerce Office of Inspector General, March 2003. *The Commercial Service Needs to Improve Management of its Operations in Turkey*, IPE-15370. Washington, D.C.: Commerce OIG.

²¹ U.S. Department of Commerce Office of Inspector General, September 2003. *Generally Sound Operations at Commercial Service Greece Are Compromised by Key Weaknesses*, IPE-15804. Washington D.C.: Commerce OIG

²² U.S. Department of Commerce Office of Inspector General, September 2004. *Commercial Service India: Challenges Remain for Management of a Large and Economically Diverse Post*, IPE-16808. Washington, D.C.: Commerce OIG.

²³ U.S. Department of Commerce Office of Inspector General, March 2004. *Pacific Northwest USEAC Network Generally Operates Well, but Export Success Reports Need More Management Scrutiny*, IPE-16507. Washington D.C.: Commerce OIG.

Commerce Must Address Language and Communications Issues in China

CS China's success largely relies on its human resource capabilities and its ability to effectively utilize those resources and adequately plan for the future of Commerce operations in China. Adequate language training for Commerce's foreign service officers and its foreign service national employees is critical to effective communication at the post and with U.S. exporters. The complex nature of business in China also requires that CS staff have in-depth knowledge of industry sectors, as well as standards and intellectual property rights, in order to effectively serve U.S. exporters. We recommended CS provide extended Mandarin language training to CS officers prior to their arrival at the post and provide time for in-country language training. CS also should offer regularly scheduled training in English writing, industry sectors, and U.S. business practices to the foreign national staff to improve customer service.

Growing Number of Visitors Is a Major Challenge

In 2005, CS China cohosted 219 major events, including more than 50 trade missions. CS officers and staff are nearly always required to provide logistical support for these events, which distracts from CS' core products and services. CS does a tremendous job of accommodating its visitors and organizing events while still accomplishing its core export-promotion mission. But CS should make several improvements to help the post manage visitors and events more efficiently, such as evaluating its logistical support for major events and visits to ensure the most efficient use of resources, and recovering all costs it incurs in supporting certified trade missions.

CS China Should Use the Established Hiring Process for Temporary Workers

CS China, particularly in Beijing and Guangzhou, frequently uses temporary workers to help with the post's special events, such as single company promotions and trade delegations. These workers typically work for a short period of time—a few days to a few weeks—and perform such tasks as recruiting attendees, issuing invitations, setting up appointments, arranging receptions, and managing RSVP lists. In some cases, temporary workers are used to update CS' databases and assist permanent staff with general administrative support. The process now used to employ temporary workers is problematic because proper security and human resources procedures are generally not being followed. We recommended CS China use the established hiring process, in particular the Personal Services Agreement-Temporary authority, for hiring temporary workers to better protect both CS and the temporary employees.

Financial and Administrative Management of the Post Is Generally Sound but Could Be Improved

CS China's financial and administrative operations are generally managed well, but there are several areas where management and oversight should be improved. The staff has done a good job of keeping up with the increasing workload. In addition, CS China hired an administrative manager in Beijing in July 2005 who is improving coordination and management of financial and administrative activities at all CS China posts. However, CS does not always follow proper procedures for petty cash and collections, and CS officers do not always properly authorize all critical financial and administrative documents. We also found that the post's inventory records were not adequately managed and reconciled, and few people use the commercial libraries in Shanghai and Guangzhou. We recommended CS require the post to follow petty cash and collection procedures prescribed in the *CS Operations Manual* or obtain written policies from the Embassy Management Section on local policies and guidance for collections to support why it cannot send currency to ITA's lockbox. In addition, it should ensure officers sign and date all documents in accordance with policies and procedures, and update inventory records. We also recommended CS evaluate the costs and benefits of maintaining commercial libraries in CS Shanghai and CS Guangzhou, and if the costs are not justified, close them.

Response from the Secretary and ITA

In his response to our report, the Secretary of Commerce addressed the need to improve coordination and cooperation between the various Commerce bureaus with operations in China, stating that he has asked the Deputy Secretary to chair a quarterly meeting of the Department's principal officials who have staff in that country.

In response to our draft report and in subsequent communications, ITA indicated that it concurred with most of our recommendations and discussed numerous actions it has taken or plans to take to address our concerns. On the issue of performance reporting, ITA stated that Commercial Service will be revising its verification procedures in the *CS Operations Manual* and has reiterated to its staff the importance of maintaining adequate Client Management System records and other documents that substantiate CS services provided. Specifically, CS outlined four methods of verification for export successes and eliminated an element of confusion introduced by the April 2005 guidance, which stated that "the primary record is the export success itself." ITA stated subsequently that CS' export successes will have to be substantiated by one of the four verification methods, including client confirmation. If one of the options cannot be satisfied, ITA noted, the reviewing supervisor may not approve a draft export success report. ITA also stated that CS intends to create standard operating procedures concerning export success writing, the linkage between service provided and the benefit to the exporter, and other issues. ITA's response to the draft report further stated that CS will make changes to the export success reporting form and take steps to clarify its export success guidelines at upcoming conferences with senior commercial officers. ITA anticipates that changes to the form will reinforce export success record-keeping requirements and integrate them with other verification elements. ITA and CS' planned actions should adequately address our concerns.

USPTO also commented on our draft report, stating that it would provide intellectual property rights training for CS officers and staff. (*Office of Inspections and Program Evaluations: IPE-17546*)

MINORITY BUSINESS DEVELOPMENT AGENCY

Audits Unresolved for More Than 6 Months

The Minority Business Development Agency was created to help minority-owned and operated businesses achieve effective and equal participation in the American free enterprise system, and overcome the social and economic disadvantages that have limited their participation in the past. MBDA provides management and technical assistance to minority firms upon request, primarily through a network of business development centers. It also promotes and coordinates the efforts of other federal agencies in assisting or providing market opportunities for minority businesses.

Value of MBDA Performance Measures Is Undermined by Inappropriate Combining of Program Results and Unreliable Performance Data from MBOC Program

We audited four of MBDA's seven FY 2004 performance measures (see September 2005 *Semiannual Report*, page 17). We recommended that the MBDA director take concrete steps to ensure that the agency define and report its results clearly and accurately, by using unambiguous definitions of terms, by not combining results from different programs, and by having minority business operating committees document their performance claims. We also recommended that MBDA regional offices and headquarters implement effective verification monitoring and oversight to ensure the reliability of performance results.

The agency agreed with all but one of our recommendations—the OIG position that in the case of multiple-year awards, MBDA should not claim in its performance results the value of option years in the year of the initial contract award. We have reaffirmed our recommendation and are currently reviewing MBDA's revised audit action plan.



NATIONAL OCEANIC AND ATMOSPHERIC ADMINISTRATION

The National Oceanic and Atmospheric Administration

studies climate and global change, ensures the protection of coastal oceans and the management of marine resources, provides weather services, and manages worldwide environmental data. NOAA does this through the following organizations:

National Weather Service reports the weather of the United States and provides weather forecasts and warnings to the general public.

National Ocean Service issues nautical charts, performs geodetic surveys, conducts research, and develops policies on ocean mining and energy.

National Marine Fisheries Service conducts a program of management, research, and services related to the protection and rational use of living marine resources.

National Environmental Satellite, Data, and Information Service observes the environment by operating a national satellite system.

Office of Oceanic and Atmospheric Research conducts research related to the oceans and Great Lakes, the lower and upper atmosphere, space environment, and the Earth.

Office of Marine and Aviation Operations operates NOAA's ships and aircraft and provides NOAA programs with trained technical and management personnel from the nation's seventh uniformed service.

Follow-up Audit Recommends Further Management Enhancements for NOAA User Fees

Each year, NOAA collects millions of dollars from the sale of special products and services to businesses and the public. During fiscal year 2004, for example, the agency sold \$23.1 million worth of goods and services, such as permits, aerial photographs, ocean records, hydrographic surveys, and access to computer databases or files. OMB Circular A-25, *User Charges*, requires agencies to charge fees that cover their costs of providing the good or service, review and revise those fees as necessary, and implement strong internal controls to carefully manage this revenue.

In March 2000, we audited NOAA's handling of user fees and identified a number of weaknesses in its related internal controls.²⁴ We revisited this issue during this semiannual period to see whether NOAA had implemented the recommendations we made in our 2000 audit report.

Poor Record Keeping, Fee Review Noted in 2000 Audit

We found in our 2000 review that NOAA did not maintain accurate, complete information about the user fees it collected. The agency also did not enforce its policies for periodically evaluating these fees and did not randomly audit fees to ensure they fully cover costs. We recommended that NOAA require its line offices to annually submit a list of products and services they sell, the corresponding unit prices, and date of last price review. We also recommended that NOAA conduct random audits of these prices and associated cost computation information to ensure they are accurate and result in full cost recovery, and that the agency document this review, as required by OMB.

Latest Audit Finds Progress but Room for Improvement

In our follow-up audit, we found that NOAA has implemented our recommendations, but in two areas has not been stringent enough to optimize internal controls:

Conducting audits. NOAA began conducting random audits in fiscal year 2001 and has repeated them every 2 years since. But its FY 2005 audit did not look at charges for two programs that accounted for \$19.5 million, or 84 percent, of its FY 2004 user fee income: Seafood Inspections (\$15.9 million, or 69 percent) and Sablefish Individual Fishing Quotas (IFQ) (\$3.6 million, or 15 percent). The

²⁴ U.S. Department of Commerce Office of Inspector General, March 2000. *Internal Controls Over User Fees Need Improvement*, STD-11881. Washington, D.C.: Commerce OIG.

intent of our recommendation was to ensure that NOAA verified—through adequate audit coverage—the consistency of its user fees and their compliance with federal policy and legislation. But by omitting the sources that account for almost the entire user fee income, the agency can hardly be sure that these fees are either consistent or compliant. NOAA finance officials told us they use statistical sampling to select the user fee documentation they audit and that forms for these two programs have not yet been included in their selections. We believe the Finance Office should modify its sampling methodology to ensure it draws from both programs. The results of its audits would then be more meaningful and provide greater assurance that user fees are consistent and comply with federal policy and legislation.

Documenting cost computation reviews. NOAA has taken several steps to document cost computation reviews that budget and line office personnel perform. In August 2000, it issued revised user fee policies and procedures directing its offices to document their final review of unit prices charged for individual products and services, and to include in the documentation a brief summary that describes the scope and results of the review along with any issues that have or need to be resolved. In May 2001, the Finance

Office issued a revised Product/Service Cost Computation form that makes documentation easier: it provides space in the line management and budget office review section to document the price review and summarize the scope, results, and issues resolved. Line offices were directed to use the form and NOAA placed an electronic version online to make it easily available to all employees. In our follow-up audit, we noted that NOAA has been enforcing compliance with its revised procedures and checking the forms to see whether they contain the required review documentation.

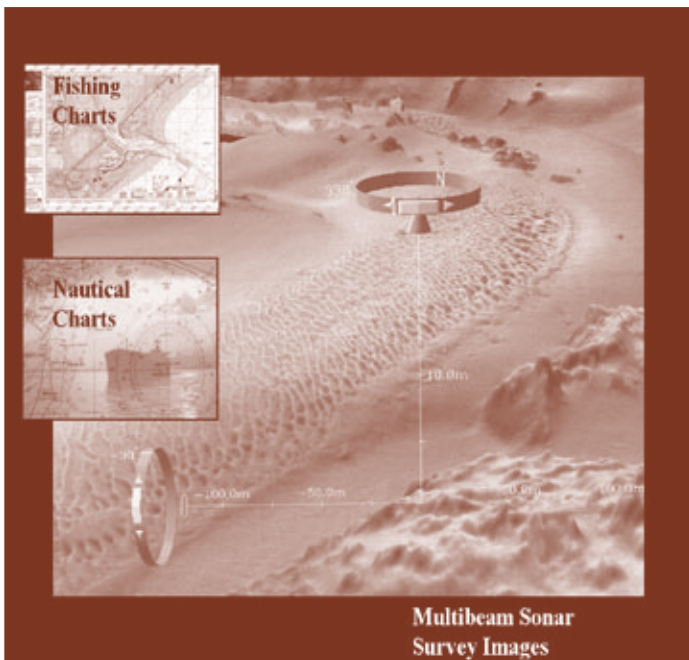
But even this improved oversight has not enhanced reporting by NMFS—the line office that collects user fees for the Seafood Inspection Program. During fiscal year 2004 NMFS did not provide the summary on the cost computation form. And the forms were not signed and dated by either the preparer's supervisor or the NMFS budget office reviewer, as is required.

NOAA should shore up these internal control weaknesses by (1) requiring the Finance Office to modify its random audit sampling methodology to include the Seafood Inspection and Sablefish IFQ programs, (2) instructing NMFS budget officials to withhold approval of user fees for any special product or service that lacks a documented review summary on the standard Product/Service Cost Computation form or approved alternate form, and (3) ensuring NMFS Cost Computation forms or alternatives are signed and dated by both the preparer's supervisor and appropriate reviewing official. (*Office of Audits, Business and Science Division: BSD-17612*)

Salmon Recovery Fund Audit Recommends Washington Tribe Return More Than \$500,000

In 2004 the Office of Inspector General launched a series of audits of projects operating under the Pacific Coastal Salmon Recovery Fund. This multimillion dollar fund provides federal grants to Alaska, California, Idaho, Oregon, and Washington and their resident Native American tribes to recover populations of wild salmon. Established by Congress and administered by the National Oceanic and Atmospheric Administration, the program supports habitat restoration, research, recovery planning, and enhancement projects for endangered and threatened salmon species.

In September 2004, we reported the results of our first two audits of projects operated by member tribes of a Washington state Native American commission that received a 5-year, \$27.34 million recovery fund award to finance salmon projects. The commission allotted equal, no-match subgrants (roughly \$1.3 million) to each of its 20 member tribes. In our March and September 2005 semi-



Fishing charts, nautical charts, and underwater surveys are among the products NOAA sells to recreational and commercial seafarers.

Sources:

Nautical chart: chartmaker.ncd.noaa.gov/staff/Mtsgeneral.ppt, accessed April 12, 2006

Fishing chart: <http://www.oceangrafix.com/images/fullsize.jpg>

Multibeam sonar survey image: <http://www.ngdc.noaa.gov/mgg/image/nos3d.jpg>



North fork of the Skokomish River below Cushman Dam.

Source: http://wa.water.usgs.gov/realtime/gage_photos.html, accessed April 12, 2006.

annual reports (pages 27 and 24, respectively), we detailed audits of projects operated by six additional tribes.

During this semiannual period, we completed an audit of a tribal subgrant that is funding projects to restore salmon habitat and promote recovery of several species throughout the Skokomish River Basin—once one of the largest and most productive salmon habitats in the northwest. One key strategy in the tribe's plan is to restore a large tract of wetlands bordering the Skokomish River to natural salmon habitat. Though the tribe's award has expired, tribal officials have said they will continue to work with its project partners (cities, counties, other tribes, state agencies, private parties, and regional fisheries enhancement groups) to implement the salmon recovery plan.

Inadequate Financial Systems Prompt Questioned Costs

We found that, in general, the tribe's work during the 5 years of the subgrant (2000-2005) complied with NOAA grant objectives and the intent of the Pacific Coastal Salmon Recovery Program. But the tribe failed to administer the subgrant in accordance with federal cost principles and uniform administrative requirements. For example, its financial management system could not produce current, accurate financial data for the project's first 3 years or reconcile costs charged to the subgrant. The tribe only invoiced the commission six times in 5 years, often for time frames that did not match the periods of performance. These and other financial reporting deficiencies caused us to question a total of \$559,900, consisting of \$369,789 in personnel expenses, \$81,684 in fringe

benefits, and \$108,427 in related indirect costs.

Our audit also revealed that the tribe did not conduct periodic inventories of personal property acquired with award funds, which we estimated to be worth more than \$14,000. It had not submitted four of six performance reports and was late with the remaining two. And finally, its system for handling procurements did not meet minimum federal requirements: the tribe did not have a procurement policy or manual detailing required standards governing purchases, maintained incomplete and poorly documented acquisition files and histories, and did not sufficiently administer contracts to ensure contractors complied with all terms and conditions.

We recommended that NOAA recover the questioned \$559,900 and direct the commission to ensure the tribe improves its financial and other management systems and complies with reporting requirements. (*Seattle Regional Office of Audits: STL-16657*)



Biologists "walk the stream" to survey both the number and types of spawning salmon in the tributaries of the Skokomish River in Washington state.

Source: OIG



NATIONAL TELECOMMUNICATIONS AND INFORMATION ADMINISTRATION

Audit of Mississippi Educational TV Grant Recommends Recovering \$1.3 Million

The National Telecommunications and Information Administration serves through the Secretary of Commerce as the executive branch's principal advisor to the President on domestic and international telecommunications and information policy issues. NTIA manages the federal use of the electromagnetic spectrum; provides grants for national information and public broadcasting infrastructure projects; and performs telecommunications research and engineering. It works to enhance citizens' access to cable television, phone, and other telecommunications services; and educates state and local governments and other entities on ways to use information technology and telecommunications more effectively.

An educational television authority in the state of Mississippi received a \$1.8 million Public Telecommunications Facilities Program grant to convert five public television stations from analog to digital technology in 2001. The grant required a matching share of \$2.7 million and covered the purchase of transmitters, antennas, feed line, and encoding, monitoring, and routing equipment.

NTIA amended the grant in April 2003, increasing the federal share to \$2.9 million, and the authority's match to \$4.3 million, bringing total project costs to \$7.2 million. The project was completed under budget in December 2004, with \$454,232 in federal funds remaining. NTIA amended the grant again after Hurricane Katrina, allowing the grantee to use the remaining funds for repairing hurricane damage, with a completion date of June 30, 2006.

We audited grant activity that occurred between October 2001 and December 2004 to determine whether the recipient had claimed allowable costs, met performance goals, and complied with applicable federal laws and regulations, and grant terms and conditions. Total costs claimed for the period were \$6,096,403.

We questioned \$3,346,957 in costs resulting from unapproved contract change orders that each exceeded \$100,000 and therefore required NTIA concurrence; and another \$144,066 for work not documented as occurring within the grant period. Though the grantee took exception to these findings, it could not produce evidence to refute them.

Our audit also noted one minor instance of noncompliance with NTIA requirements for labeling equipment and found that the recipient did not consistently file performance reports within required time frames. The grantee produced evidence that the equipment in question was in fact properly labeled and stated its intent to file progress reports on time.

We recommended that the NTIA grants officer disallow \$3,346,957 in questioned costs, recover the federal share of \$1,327,739, and ensure performance reports are filed on time. (*Atlanta Regional Office of Audits: ATL-17529*)



Grant funds were used to purchase and install the top-mounted DTV antenna on this 1,000-foot tower in Greenwood, Mississippi. The tower itself was erected years earlier to broadcast analog TV and radio signals.

Source: OIG



TECHNOLOGY ADMINISTRATION

Audit Seeks Return of Nonproject Personnel Costs

The Technology Administration serves the needs of technology-based industry, advocates federal actions and policies to speed the transfer of technology from the laboratory to the marketplace, and removes barriers for commercializing new technologies. It includes three major organizations:

Office of Technology Policy works in partnership with the private sector to develop and advocate national policies and initiatives that use technology to build America's economic strength, promote the creation of high-wage jobs, and bring about improvements in our quality of life.

National Institute of Standards and Technology promotes U.S. economic growth by working to develop and apply technology, measurements, and standards. NIST manages four programs: the Advanced Technology Program, the Manufacturing Extension Partnership program, the Baldrige National Quality Program, and NIST Research Laboratories.

National Technical Information Service is a self-supporting agency that promotes the nation's economic growth and job creation by providing access to information that stimulates innovation and discovery. NTIS accomplishes this mission through information collection and dissemination to the public and through information and production services to federal agencies.

In April 2004, NIST awarded a 3-year ATP cooperative agreement to a Maryland company to develop video compression technology for recording high-definition content on standard DVDs. Total estimated costs of the project are nearly \$2.8 million. The federal government's share is capped at \$1,656,466, or 81.4 percent of allowable direct costs. The company received reimbursement of \$310,117 for direct costs claimed during the project's first 7 months (May through December 2004).

Our interim financial audit questioned \$51,644 in claimed salary and fringe benefits that were either for hours not allocable to the ATP project; spent on indirect project tasks, such as general and administrative activities; or otherwise improperly charged. We also questioned \$194 in costs incurred prior to the project's initiation.

In addition, we found that the recipient's financial and property management systems did not comply with federal regulations for maintaining written procedures, tracking purchases, and taking inventory of equipment purchased with federal dollars.

We recommended that NIST disallow \$51,838 in questioned costs, recover excess federal disbursements of \$29,409, and ensure the recipient, among other things, (1) implements an adequate method for capturing time directly spent on the ATP project, (2) bills only for that time, (3) develops written financial management procedures, and (4) tracks and inventories grant-funded purchases as required by federal regulations and ATP program terms. (*Denver Regional Office of Audits: DEN-17410*)

Audit Shows New Mexico Company Should Return More Than \$16,000

We audited costs claimed by a New Mexico startup firm that received a 3-year ATP award to develop optical technology for fabricating low-cost fiber network components and subsystems. Total estimated costs of the project were \$1,994,346, to be fully paid by the government.

The project ran from October 2001 through September 2004, during which time the company received federal reimbursement for the entire award amount. We questioned \$21,255 of costs claimed for salaries, fringe benefits (including relocation costs for a new employee), travel, supplies, and other expenses that were unsupported or otherwise unallowable under ATP terms and conditions.



We also found the recipient did not tag equipment purchased with project funds and that its financial management system, though generally adequate, did not meet federal requirements for the following reasons: the company lacked written standards of employee conduct and written procedures for (1) minimizing the time between receipt and disbursement of federal funds; (2) determining whether costs are reasonable, allowable, and allocable to the project; and (3) handling purchases made with federal funds. Without such procedures, the government cannot ensure the recipient has effective control over program-related funds, property, and other assets.

We recommended that NIST disallow \$21,255 in questioned costs, recover \$16,414 in excess federal funds disbursed, and direct the firm to develop the required written procedures and tag equipment purchased with project funds to indicate federal ownership. (*Denver Regional Office of Audits: DEN-17496*)

NIST's Advanced Technology Program

As part of its efforts to spur technological development, NIST administers the Advanced Technology Program (ATP) to provide financial assistance through cooperative agreements, with the goal of transferring cutting-edge technology to industrial uses. Between 1990 and September 2004, ATP awarded \$2.3 billion* in funding to companies to develop promising, high-risk technologies. Industry has matched this funding with \$2.1 billion in cost-sharing.

Source: *<http://www.atp.nist.gov/factsheets/3-a-1.pdf>, accessed April 17, 2006

Audits Unresolved for More Than 6 Months

Massachusetts MEP

We are continuing to work with NIST officials toward resolution of an MEP cooperative agreement, which we reported on in our September 2004 *Semiannual Report* (page 37) as being unresolved for more than 6 months. Our audit had recommended that NIST disallow questioned costs of \$8,177,606, recover the federal share of \$1,599,349, and require the recipient to implement improvements to its financial reporting system. In its audit resolution proposal, NIST disallowed \$715,097 and reinstated \$7,462,509 in costs questioned in the audit report. In July 2004, after detailed analyses of NIST's audit resolution proposal and other documents provided by NIST and the recipient, we advised NIST that we concurred with its decision to disallow \$715,097, but did not concur with reinstatement of the remaining \$7,462,509. OIG is reviewing a revised audit resolution proposal that NIST submitted in June 2005.

Computer Aided Surgery Inc., New York

An OIG audit of this NIST cooperative agreement (see September 2004 issue, page 35, and March 2005 issue, page 33 — ATL-16095) questioned costs totaling \$547,426 in inappropriately charged rent, utilities, and certain salary, fringe benefit, and other expenses, because these costs were unallowable, in excess of budgetary limits, or incorrectly categorized. This audit remains unresolved because we have postponed NIST's submission of an audit resolution proposal.



UNITED STATES PATENT AND TRADEMARK OFFICE

Auditor Gives Financial Statements a Clean Opinion

The United States Patent and Trademark Office

administers the nation's patent and trademark laws. Patents are granted and trademarks registered under a system intended to provide incentives to invent, invest in research, commercialize new technology, and draw attention to inventions that would otherwise go unnoticed. USPTO also collects, assembles, publishes, and disseminates technological information disclosed in patents.

Independent auditor KPMG rendered an unqualified opinion on USPTO's FY 2005 financial statements, finding them fairly presented, free of material weaknesses, and in compliance with all applicable laws and regulations. KPMG reported that USPTO continues to maintain a sound internal control structure that enables the agency to prepare reliable financial and performance information.

As part of the financial statement audit, KPMG assessed information technology general controls for USPTO systems used to process and maintain key financial data against criteria in GAO's *Federal Information System Controls Audit Manual* (FISCAM). Weaknesses were identified in the areas of entity-wide security program planning and management, access controls, application software development and change control, and service continuity. The auditor also found that USPTO had resolved three of six outstanding problems identified in the FY 2004 financial statements audit. (*Financial Statements and Accountability Audits: FSD-17434-1 and -2*)



DEPARTMENT-WIDE MANAGEMENT

The United States Department of Commerce

creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship. The Department has three strategic goals:

Goal 1: Provide the information and tools to maximize U.S. competitiveness.

Goal 2: Foster science and technological leadership by protecting intellectual property, enhancing technical standards, and advancing measurement science.

Goal 3: Observe, protect, and manage the Earth's resources to promote environmental stewardship.

The Department has also established a Management Integration Goal that is equally important to all bureaus:

Achieve organizational and management excellence.

OIG Finds Serious Deficiencies in Commerce's Management of the Federal Employees' Compensation Act Program

The Federal Employees' Compensation Act (FECA) pays medical and salary benefits for federal civilian employees, temporary employees, and some contractors and volunteers who suffer job-related injuries or illnesses that prevent them from working. In fiscal year 2005, federal agencies spent more than \$2.3 billion in salaries and medical bills for employees hurt on the job—up 10 percent from 5 years ago—and lost roughly 2 million production days.²⁵ Efforts in the federal IG community to resolve concerns regarding the government-wide FECA program are discussed on page 47 of this report.

The Department of Labor administers the FECA program government-wide—determining eligibility and distributing benefits—but individual agencies bear the costs for their workers' compensation recipients and are responsible for supplying Labor with pertinent details about claims, monitoring the status of their claimants, and bringing employees back to work as soon as possible. Labor bills agencies for reimbursement annually via “charge-back” reports that cover benefits disbursed over a 12-month period (July 1 through June 30). The basic rate of compensation for injured employees with no dependents is 66.67 percent of gross wages and 75 percent for those with dependents.

For the period July 1, 2004, through June 30, 2005, Commerce paid more than \$14.4 million in workers' compensation benefits and had roughly 1,275 employees on the rolls. Combined FECA costs for Census and NOAA (\$5.59 million and \$5.45 million, respectively) generated about 76 percent of the Department's total.

Commerce's Office of Human Resources Management (OHRM) and its Office of Occupational Safety and Health (“workers' compensation office”) administer the program for all bureaus except USPTO.²⁶ Since October 2002, a contractor has managed a portion of the FECA workload, and at the time of our review handled approximately 686 short-term claims and 74 long-term claims. The workers' comp office is responsible for taking all appropriate steps to obtain benefits for eligible employees and their survivors, and for working closely with beneficiaries, bureau personnel, and Labor to monitor cases and return employees to work.²⁷ These activities impact Labor's decisions on claims, distribution of funds, and ultimately, the Department's annual FECA bill.

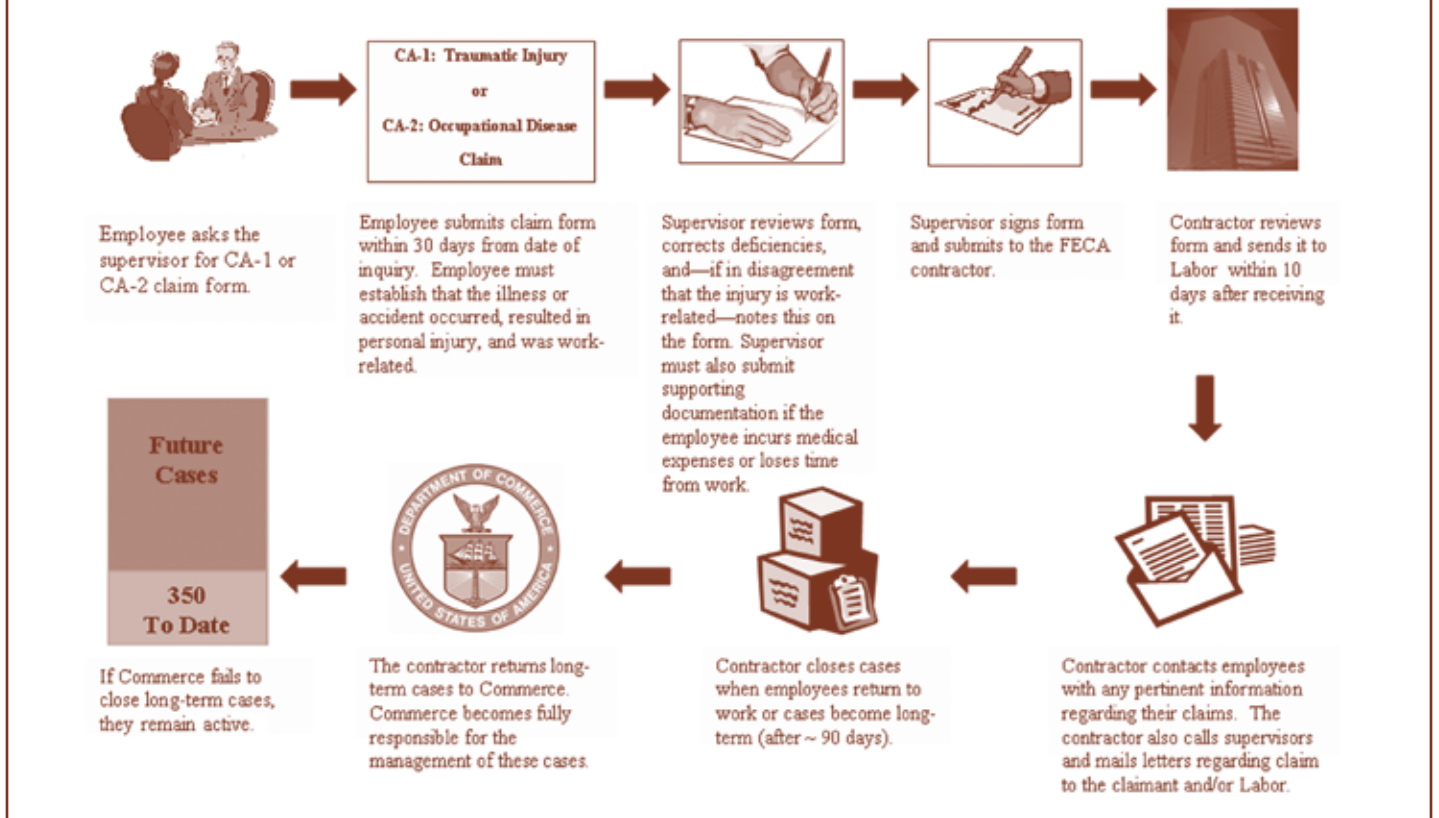
Our review considered, among other things, how well Commerce (1) minimizes FECA costs by bringing claimants back to work as soon as possible, (2) verifies the accuracy of benefit payments charged by Labor, (3) oversees its workers' compensation contractor, and (4) coordinates its safety and workers' compensation programs to eliminate workplace conditions that contribute to costly injuries.

²⁵ <http://www.federaltimes.com/index2.php?S=1174163>, accessed April 7, 2006.

²⁶ Since March 2000, USPTO has managed its own workers' compensation personnel and duties under authority of the 1999 American Inventors Protection Act.

²⁷ Department Administrative Order (DAO) 202-810, *Workers' Compensation for Federal Employees*, November 24, 2004.

FECA Claims Process at Commerce



Source: OIG

Our Findings

Commerce's Management of the FECA Program Has Been Inadequate

Our review of 231 workers' compensation cases revealed that both OHRM and its workers' comp office have not actively managed the program during at least the past 3 years, and even longer for some cases. These offices failed to challenge questionable charges, adequately track cases, or refer instances of possible FECA fraud or misconduct to our office. Neither Commerce nor its workers' compensation contractor has routinely pursued claims involving third party liability. OHRM has not given adequate guidance or comprehensive training to bureau supervisors to help them handle employee claims, and the Department has no program that focuses on returning claimants to work.

Much of the poor oversight we noted was rooted in the program's organizational structure and staff resources. From 2002 through August 2005, only one employee oversaw the Department's con-

tractor and related caseload while handling several hundred cases directly—including hundreds of long-term claims. (Commerce only transferred a portion of the long-term claims to the contractor in April 2004.) This employee was responsible for maintaining Department records, serving as a resource to departmental supervisors and employees, and monitoring and evaluating the contractor's performance. Frequent changes in top leadership at the Office of Occupational Safety and Health (the workers' compensation specialist had six different supervisors in 5 years) further diminished OHRM's ability to manage the FECA program in the Department's best interest.

Instead, OHRM has relied on the Department of Labor and a contractor to oversee cases and make long-term financial decisions on departmental claims. It has not adequately monitored the contractor, maintained proper files, or implemented internal controls. As a result, we identified instances in which Commerce had continued making payments to claimants who had been certified as able to work, made substantial overpayments to some recipients, and continued issuing payments to several claimants who had died.

Bureaus' Attention to Workers' Comp Program Has Been Equally Deficient

Department Administrative Order 202-810 assigns specific FECA oversight responsibilities to the individual bureaus, in support of OHRM. But five Commerce bureaus that together account for 89 percent of the Department's 2005 workers' compensation costs, have relied on the workers' compensation office to manage their cases, believing this office had total responsibility for doing so. Many bureaus also failed to routinely monitor charge-back reports they received from the workers' comp office and the Labor Department, even though these reports are a key tool for analyzing and minimizing FECA costs. As a result, we found instances in which claimants were able to work, but remained on the rolls unnecessarily for years.

We discovered that even our own office had failed to manage several workers' compensation cases adequately.

Other bureau-related management and operational problems we identified include the following:

Census. Census hires nearly 1 million temporary employees to conduct the decennial census each decade. Though these workers are Commerce employees for a limited time only, they are eligible for workers' compensation benefits if injured while on the job until they can return to work. Our review identified 44 active claims from the 1990 decennial and 183 from the 2000 decennial. Census and OHRM need to develop a proactive plan for managing future decennial claims and bringing eligible long-term claimants from previous decennials back to work on 2010 decennial activities or sooner.

USPTO. The United States Patent and Trademark Office has independently processed and managed its workers' compensation claims since it became a performance-based organization in March 2000. We found that USPTO's case management is inconsistent and the agency needs policies, guidance, and training for supervisors and a detailed performance plan for its workers' compensation specialist.

The Department's FECA Contractor Has a Record of Strong Performance

We evaluated the contractor's performance in meeting 10 of 11 contract deliverables and found that it had met expectations in all but 1 area. The contractor has instituted sound operating procedures and has capable, well-trained staff handling Commerce FECA claims. However, the workers' comp office did little to monitor the contractor's performance until we brought this issue to management's attention during our review.

In addition, we believe OHRM needs to modify the 2002 contract to include required metrics for evaluating the contractor's per-

formance and clarify a 2004 amendment related to the long-term cases maintained by the contractor.

Department Response

Commerce's Chief Financial Officer and Assistant Secretary for Administration stated that the Department has taken a number of actions since November 2005 to improve management of the FECA program. It now provides training to departmental personnel who oversee the program, is developing a FECA handbook for supervisors, identifies claims that may involve third party responsibility, is seeking ways to return employees to work as soon as possible, and has strengthened its interaction with the Labor Department.

The Census Bureau concurred with the recommendations specific to its FECA caseload, but reiterated the position that Commerce bureaus have a limited role in managing these cases and that the Department is largely responsible for handling them.

USPTO generally agreed with our findings specific to its FECA program, accepted our recommendations, and listed a number of actions it is taking to strengthen program management. (*Office of Inspections and Program Evaluations: IPE-17536*)

Comprehensive Review Shows Commerce Has Made Progress Implementing GPRA

The 1993 Government Performance and Results Act (GPRA) was intended to improve the effectiveness, efficiency, and accountability of federal programs. Reporting valid, accurate information is key to that goal, and we have been tracking the Department's efforts to capture and report reliable performance data since Commerce first began implementing GPRA in 1997. In March 1999, we identified GPRA implementation as a top management challenge for Commerce, and the issue has been on the list of management challenges ever since.

The Department has worked diligently to improve the validity of performance results reported by all of its bureaus over the past 7 years. In 2005 we determined the issue deserved a thorough review to see whether GPRA still represents a major challenge for Commerce. We initiated a comprehensive audit to summarize the results of audit reports and other OIG work and assess the status of the Department's efforts to report useful, reliable performance results.

Eight Reviews in 4 Years

From September 2000 to September 2004, OIG issued eight separate audit reports covering six bureaus' efforts to report accurate

and reliable performance information in accordance with GPRA. The audits covered a total of 45 performance measures reported by the Bureau of Industry and Security, the Census Bureau, the National Telecommunications and Information Administration, the National Institute of Standards and Technology, the U.S. Patent and Trademark Office, and the National Oceanic and Atmospheric Administration. In addition, for this comprehensive audit, we included International Trade Administration performance measurement data reviewed by our Office of Inspections and Program Evaluations.

Recurring Problems Have Been Corrected

Our earlier audits had uncovered repeated instances of ambiguous measures that either did not establish clear links between the activity being measured and the agency's actions or were stated in terms that did not appropriately represent performance results. We found cases of inadequate disclosure in which language accompanying performance data was insufficient to place performance results in an appropriate context. And we identified inadequate management controls and procedures for verifying performance information.

Our comprehensive audit found the Department and its bureaus have improved both the utility and integrity of performance information by

- Eliminating or rewording performance measures that either did not demonstrate a clear link between the activity being measured and the agency's actions or did not clearly demonstrate what was being measured. For example, of the 26 performance measures identified as unclear during our eight earlier audits, 9 (35 percent) have been discontinued and 10 (38 percent) have been revised or reworded.
- Improving explanations of performance measures, results, and data limitations in *Performance and Accountability Reports* and *Annual Performance Plans* submitted by the Department to satisfy GPRA requirements.
- Instituting quarterly performance reviews during which bureau heads and the Deputy Secretary meet to discuss performance targets and accomplishments.
- Validating and verifying the performance measure data provided by the bureaus quarterly.

In addition, explanations of how performance measures are verified have been improved in GPRA documents. For example, bureaus have clarified their methods for verifying performance data in *Annual Performance Plans*. Several bureaus have improved management controls to ensure the reliability of performance data, including documenting verification procedures and establishing requirements for maintaining support documentation. The Depart-

AUDIT REPORTS ISSUED ON GPRA

Bureau of Export Administration, Final Audit Report No. FSD-12847, September 2000

National Telecommunications and Information Administration, Final Audit Report No. FSD-12856, September 2000

U.S. Patent and Trademark Office, Final Audit Report No. FSD-14429, March 2002

National Institute of Standards and Technology, Final Audit Report No. FSD-14430, March 2002

National Oceanic and Atmospheric Administration, Final Audit Report No. FSD-14998, February 2003

National Oceanic and Atmospheric Administration, Final Audit Report No. FSD-15643, September 2003

U.S. Census Bureau, Final Audit Report No. FSD-15990, March 2004

National Oceanic and Atmospheric Administration Audit Report No. FSD-15989, September 2004

Minority Business Development Agency, Final Audit Report No. 17252, September 2005 (This audit was not included in the scope of the comprehensive audit because it was outside the defined time frame.)

ment also now rigorously reviews performance information with bureau managers quarterly.

GPRA Implementation Removed From List of Top Management Challenges

We are encouraged by these improvements and have determined that Commerce and its bureaus have collectively taken sufficient steps to warrant the removal of GPRA implementation from the list of Top 10 Management Challenges facing the Department. We caution that, despite Commerce's significant progress in this area, management attention to performance reporting remains imperative, particularly as the Department continues to move toward reporting more outcome-oriented accomplishments.

There are still many areas where the Department and its bureaus can work to enhance the quality of performance information. To

that end, we recommend the Department and its bureaus use easily understandable language in measures; have strong, effective management controls over collection and reporting to ensure the integrity of performance data; and continue to discuss data reliability at quarterly performance reviews.

Department Response

The Department's chief financial officer concurred with our recommendations and noted that Commerce managers intend to work with the bureaus to implement internal controls that ensure the integrity of performance data in a manner that provides for suitable degrees of consistency and flexibility within each bureau, recognizing the wide variation of programs and measures. (*Office of Audits: FSD-17444*)

Department's FY 2005 Consolidated Financial Statements: Commerce Maintains Clean Opinion, But Audit Finds Control and Noncompliance Issues

The Department received an unqualified opinion on its consolidated statements for FY 2005, but the independent auditors (KPMG) identified two reportable conditions and one instance of noncompliance with the Anti-Deficiency Act.

Reportable Conditions

Information Technology Controls

Effective general IT controls provide assurance that data used to prepare and report financial information is complete, reliable, and uncompromised. Maintaining such controls has been an ongoing challenge for Commerce since 1998. During FY 2005, Commerce took several positive steps to improve internal controls and address previously noted weaknesses. The Department continued to focus on improving the information security management and technical control process, and published a major revision of its security program policy and implementation standards.

Despite these improvements, the auditors again identified weaknesses in all six general IT control areas outlined GAO's *Federal Information System Controls Audit Manual*—entity-wide security, access controls, application software development and change control, system software, segregation of duties, and service continuity. Together these weaknesses constitute a reportable condition. As part of the FY 2005 evaluation under the Federal

Managers Financial Integrity Act, Commerce determined (and OIG confirmed) that a material weakness related to IT information security still exists.

Accounting for NIST Construction in Progress

During the FY 2005 audit, NIST notified the auditors that its construction work-in-progress account was overstated by approximately \$127 million against the actual value of active projects. NIST arranged for independent consultants to analyze the account in order to calculate and propose an appropriate adjusting entry. KPMG, as part of its audit procedures, reviewed the work performed by the consultants, made additional revisions to their proposed adjusting entry, and issued recommendations to NIST addressing controls on management and reporting of construction work-in-progress costs.

Noncompliance with Anti-Deficiency Act

NOAA. We reported in last year's audit that two reimbursable agreements NOAA had entered into with nonprofit entities contained indemnification clauses. These proved to be in violation of the Anti-Deficiency Act because they constituted open-ended obligations of government funds. The Department reported these violations to Congress, the President, and the Comptroller General.

Prompted by these findings, NOAA reviewed 2,130 other agreements during this past fiscal year and identified 80 that contained indemnification clauses or provisions involving questionable liability. The Department's Office of General Counsel determined that these agreements also constituted violations of the Anti-Deficiency Act. They were submitted to OMB for review and referral to the President. Once OMB has notified the President, Commerce will report the violations to Congress and the Comptroller General as required by 31 USC § 1517(b).

Economics and Statistics Administration. Also during FY 2005, the Economics and Statistics Administration identified a 1-year agreement it had entered into with a foreign government that contained an indemnification clause. As a result of this discovery, ESA conducted an investigation and located six prior 1-year agreements with the same government containing the same clause. The Department's Office of General Counsel is reviewing the agreements to determine whether they violate the Anti-Deficiency Act.

Additional Reporting Requirements

In addition to the FY 2005 consolidated audit, KPMG audited Commerce's closing package financial statement reports and accompanying notes (i.e., "special purpose" financial statements),

and assessed the Department’s compliance with financial reporting requirements stipulated the by *Treasury Financial Manual*. The auditors rendered an unqualified opinion on the special purpose statements and found no material weaknesses in internal control over financial reporting and no compliance matters.

KPMG also performed procedures over intragovernmental balances reported in the Department’s financial statements, identifying differences in balances reported by Commerce and the Governmentwide Financial Reporting System. The Department attributed the differences in some cases to its shifting of amounts into categories required by Treasury, and in other cases, to omissions in that system or in the records of agencies with which it did business. (*Financial Statements and Accountability Audits: FSD-17433-1, -2, -3, -4*)

Preaward Financial Assistance Screening

As part of our ongoing emphasis on prevention of fraud, waste, and abuse, we continue to work with the Office of Acquisition Management, NOAA and NIST grant offices, and EDA program offices to screen the Department’s proposed grants and cooperative agreements before they are awarded. Our screening serves two functions: it provides information on whether the applicant has unresolved audit findings and recommendations on earlier awards, and it identifies any negative financial or investigative history on individuals or organizations connected with a proposed award.

On January 1, 2004, we implemented new policies and procedures for our preaward screening process. OIG and the Department determined that there are several categories of recipients for whom the costs and administrative burden of the screening process may well outweigh the government’s risk of financial loss. Our new policies exempt from review, recipients who (1) receive awards in amounts of \$100,000 or less; (2) have received financial assistance from the Department for 3 or more consecutive years without any adverse program or audit findings; or (3) are units of a state or local government.

During this period we screened 80 proposed awards. For 8 of the awards, we found major deficiencies that could affect the ability of the prospective recipients to maintain proper control over federal funds. On the basis of the information we provided, the Department delayed 3 awards and established special award conditions for 5 awards. (*Office of Audits*)

PREAWARD SCREENING RESULTS

Results	Award	
	Number	Amount
Awards delayed to resolve concerns	3	\$558,005
Special award conditions established	5	\$7,583,712

Nonfederal Audit Activities

In addition to undergoing OIG-performed audits, certain recipients of Commerce financial assistance are periodically examined by state and local government auditors and by independent public accountants. OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, sets forth the audit requirements for most of these audits. For-profit organizations that receive Advanced Technology Program funds from NIST are audited in accordance with *Government Auditing Standards* and *NIST Program-Specific Audit Guidelines for ATP Cooperative Agreements*, issued by the Department.

We examined 137 audit reports during this semiannual period to determine whether they contained any audit findings related to Department programs. For 99 of these reports the Department acts as oversight agency and monitors the audited entity’s compliance with OMB Circular A-133 or NIST’s program-specific reporting requirements. The other 38 reports are from entities for which other federal agencies have oversight responsibility. We identified 17 reports with findings related to the Department of Commerce.

Report Category	OMB A-133 Audits	ATP Program-Specific Audits	Total
Pending (October 1, 2005)	10	79	89
Received	91	108	199
Examined	68	69	137
Pending (March 31, 2006)	33	118	151

The following table shows a breakdown, by bureau, of the \$179

million in Commerce funds audited.

Bureau	Funds
EDA	\$27,224,217
NIST*	86,627,493
NOAA	11,944,561
NTIA	822,746
Multiagency	49,770,733
Agency not identified	2,675,870
Total	\$179,065,620

* Includes \$81,220,475 in ATP program-specific audits.

We identified a total of \$1,933,802 in federal questioned costs and \$697,108 in funds to be put to better use. In most reports the subject programs were not considered major programs; thus the audits involved limited transaction and compliance testing against laws, regulations, and grant terms and conditions. The 17 reports with Commerce findings are listed in Appendix B-1. (*Atlanta and Denver Regional Offices of Audits*)



OFFICE OF INSPECTOR GENERAL

Symposium Held to Coordinate IG Community's Oversight of FECA Program

The mission of the **Office of Inspector General** is to promote economy, efficiency, and effectiveness and detect and prevent waste, fraud, abuse, and mismanagement in the programs and operations of the U.S. Department of Commerce. Through its audits, inspections, performance evaluations, and investigations, OIG proposes innovative ideas and constructive solutions that lead to positive changes for the Department. By providing timely, useful, and reliable information and advice to departmental officials, the administration, and Congress, OIG's work helps improve Commerce management and operations as well as its delivery of services to the public.

(See page 39.)

The proposed protocol sets up a clearinghouse review process in which the Federal Audit Executive Council's audit committee would review potential OIG audits and evaluations of the FECA program that may be crosscutting or that could result in recommendations to officials outside the employing agency, such as OWCP. The protocol outlines suggested roles and responsibilities for OIGs, the type of FECA program data currently available to federal agencies, OWCP's rules and process for releasing FECA program data to outside agencies, and procedures for how OIGs can request information. When finalized, the protocol will apply to all OIG FECA-related work beginning in July 2006.

During his opening remarks, Frazier said he had initially been somewhat skeptical about pursuing work on the FECA program, but he now has no doubt that it is a real problem at the Department of Commerce as well as at other federal agencies. He said Commerce staff did not effectively manage the program and that supervisors did not understand their responsibilities. "There is plenty of blame to go around, (but) there are also solutions," Frazier said. He added that before IGs conclude that problems in the FECA program are the fault of Labor's OWCP, they should first look at how the program operates in their agencies and their own offices.

On March 22, Commerce Inspector General Johnnie E. Frazier and Department of Labor Inspector General Gordon S. Heddell hosted a half-day symposium on work being done by federal inspectors general (IGs) on the Federal Employees' Compensation Act program. Titled "Building a Coordinated Approach to the IG Community's FECA-Related Work," the symposium drew about 150 auditors, inspectors, evaluators, and investigators from inspector general offices across the government and featured speakers from Labor's Office of Workers' Compensation Programs (OWCP) and Office of Inspector General, and the Commerce OIG.

Shelby Hallmark, director of OWCP, and Stephanie Semmer, chief of OWCP's Branch of Technical Assistance, talked about the office's efforts to better manage FECA cases and return people to work, proposed FECA reform legislation, and the roles and responsibilities of both OWCP and employing agencies in containing FECA costs.

Elliot P. Lewis, assistant inspector general for audit at the Department of Labor, outlined a proposed protocol to encourage a coordinated approach to conducting FECA-related work and to promote collaboration among the various federal offices of inspector general. The idea stemmed from ongoing FECA program work by the Federal IG Investigators Forum and current or proposed audit and inspection work by IGs from Commerce, Interior, the Social Security Administration, Veterans Affairs, and the U.S. Postal Service. Commerce OIG recently released a comprehensive report that detailed serious management deficiencies in the agency's FECA program.



Department of Commerce Inspector General Johnnie E. Frazier delivered opening and closing remarks at the March 22 symposium on the Federal Employees' Compensation Act (FECA) program, which is commonly called "Workers' Comp."

Source: OIG

Office of Investigations

Our investigative work during this semiannual period focused on three major areas that continually make up the greatest part of our caseload: fraud and corruption involving contractors, grantees, and other parties outside the Department; employee fraud, corruption, and misconduct; and criminal misuse of government computer resources. The investigations highlighted below are representative of the results achieved during the past 6 months in these areas of critical concern.

Contractor, Grantee, and Other External Fraud and Corruption

Preventing and detecting fraud and abuse in agency programs and operations is a key component of the inspector general mission. Commerce awards millions of dollars each year in federal contracts, grants, and cooperative agreements to organizations across the country. With so much at stake, investigating and prosecuting fraud by contractors and grantees is and always has been a high priority for the Office of Investigations. In recent years, we have also seen a notable increase in cases involving other forms of external corruption that negatively impact the Department. Our success in these areas during this semiannual period includes the bribery conviction of a subcontractor on a federally funded construction project and the indictment of a major participant in an international telemarketing scheme.

Subcontractor on EDA Project Convicted of Bribery

In our September 2005 *Semiannual Report* (page 43), we reported that bribery charges had been filed against a construction company and its owner in connection with an extortion scheme executed by a Philadelphia city official. The official was accepting bribes in exchange for issuing minority business certificates for use in obtaining contracts on city construction projects. A joint investigation conducted by the FBI, IRS, and inspectors general of the departments of Commerce, Labor, and Transportation disclosed that the company used a certificate provided by the official to qualify for subcontract work on various construction projects, including an EDA-funded public works project administered by the city's mass transit agency. On October 15, 2005, under the terms of a plea agreement, the owner of the construction company was convicted in U.S. District Court for the Eastern District of Pennsylvania on one count of bribery and one count of submitting a false tax return. Sentencing was scheduled for May 2006. (*Alexandria Resident Office*)

Attorney Indicted in Telemarketing Fraud

In October 2005, an attorney practicing in Costa Rica was arrested and indicted in the Southern District of Florida on 45 counts of wire fraud and money laundering for his role in a bogus telemarketing scheme in which callers identified themselves as employees of the Department of Commerce and other federal agencies. An ongoing investigation, conducted jointly with the U.S. Postal Inspection Service and the Bureau of Immigration and Customs Enforcement of the Department of Homeland Security, has developed evidence of an international confidence scheme that defrauded individuals using the premise that they had won multimillion dollar cash prizes in a national lottery. Targets of the scam were instructed to make bank-to-bank wire transfers to a bank in Florida so that offshore accounts could be set up for deposit of their winnings. The defendant maintained accounts in a Costa Rican bank that had a relationship with the U.S. bank. Once funds reached Florida, he was able to make withdrawals from his local accounts. To date, identified victims have given more than \$3.5 million to the fraud perpetrators. (*Atlanta Field Office*)

Former Executive Director of Missouri Economic Development Commission Sentenced on Program Fraud Conviction

In our September 2005 *Semiannual Report* (page 42), we reported the convictions of two former directors of a regional rural economic development commission for crimes related to their administration of federal grant money, including funds awarded by EDA to operate a revolving loan fund. A joint OIG/FBI investigation disclosed that the defendants had used about a half million dollars in federal funds to make unauthorized loans and payments to benefit themselves and companies they controlled. On November 18, 2005, the former executive director of the commission was sentenced in U.S. District Court for the Western District of Missouri to 24 months' incarceration and 3 years' probation, and was ordered to pay \$479,557 in restitution to the federal government. His former assistant director had been previously sentenced to 3 years' probation and a \$5,000 fine for using false documents. (*Denver Resident Office*)

Louisiana Businessman Sentenced for Conspiracy Involving Assignment of Fictitious Census Contract

As reported in our September 2005 *Semiannual Report* (page 43), a Louisiana businessman was convicted of conspiracy to commit bank fraud after a joint OIG/FBI investigation revealed that he had pledged his company's interest in the proceeds of a fictitious \$18.5 million contract with the Census Bureau as collateral for a \$6 million loan from a New Orleans bank. On December 1, 2005, the defendant was sentenced in U.S. District Court for the



OIG special agents place seized evidence in a secure storage area.

Source: OIG

Eastern District of Louisiana to 12 months' imprisonment followed by 3 years' probation, and was ordered to make restitution of \$6,775,344. (*Alexandria Resident Office*)

Grantee Official Agrees to Pretrial Diversion and Restitution for False Travel Claims

An investigation we conducted jointly with the Office of Inspector General of the Department of Housing and Urban Development revealed that between April 1998 and December 2000, the executive director of a Native American tribe's community development program made eight duplicative claims for travel reimbursement from DOC and HUD grant funds. As a result, he received nearly \$4,000 in fraudulent payments. In December 2005, the U.S. Attorney for the District of Wyoming executed a pretrial diversion agreement with the defendant in which he acknowledged his responsibility for the false claims and agreed to abide by certain conditions and pay restitution in the amount of \$3,779 over a 6-month probationary period. (*Denver Resident Office*)

Employee Fraud, Corruption, and Misconduct

Investigating criminal activities and misconduct by Department employees is a staple of the Office of Investigation's work. During this semiannual period, OI successfully prosecuted multiple cases of time and attendance fraud and theft of government property, and obtained the conviction of one employee for his role in a bribery scheme. In addition, a joint investigation with the Department of Labor OIG resulted in forfeiture of more than \$195,000 in workers' compensation benefits by a Commerce beneficiary who failed to report outside earnings.

Patent Office Bribery Scheme Participants Convicted and Sentenced

Our last *Semiannual Report* (page 43) detailed the September 2005 bribery conviction of a former supervisory engineering draftsman at USPTO. An OIG investigation had found she had solicited payment from patent applicants in exchange for drafting work to be performed by employees under her supervision. On December 5, 2005, the defendant was sentenced in U.S. District Court for the Eastern District of Virginia to 2 years' probation and a \$1,000 fine.

In January 2006, one of her former assistants pleaded guilty to a violation of 18 USC §209 (unlawful supplementation of salary) for his part in the bribery scheme. Sentencing was scheduled for April 2006. (*Alexandria Resident Office*)

Two Former Employees Sentenced for Theft of Census Debit Cards

In our September 2005 *Semiannual Report* (page 44), we reported the conviction of a former Census Bureau employee for theft of government property, based on the results of an OIG investigation that found she had improperly negotiated 47 debit cards that were intended for distribution to the public as an incentive to participate in Census surveys. On January 19, 2006, the defendant was sentenced in U.S. District Court for the Southern District of Ohio to 3 years' probation and was ordered to pay the government \$1,966 in restitution. (*Denver Resident Office*)

The same issue of our *Semiannual Report* (page 45) noted the arrest of another Census employee for stealing debit cards valued at nearly \$2,800. On October 14, 2005, the defendant entered into a pretrial diversion agreement in U.S. District Court for the Southern District of New York. Under the terms of the agreement, all pending charges will be dismissed if she successfully completes 1 year of probation and makes full restitution to the government. (*Washington Field Office*)

Investigation of Time and Attendance Fraud at USPTO Leads to Multiple Convictions

During the last reporting period, three USPTO employees were arrested in Virginia on state theft charges as the result of an OIG investigation into time and attendance fraud at the agency. (See September 2005 *Semiannual Report*, page 44.) All three resigned from federal service and have now entered guilty pleas and been sentenced on felony convictions in the Circuit Court of the City of Alexandria.

In September 2005, a patent examiner pleaded guilty to charges that he had falsely claimed approximately 400 hours of time worked. On November 10, 2005, the defendant was sentenced to 2 years in jail (all but 45 days suspended) and was ordered to perform 100 hours of community service and make restitution of \$14,393 to the government.

A legal instruments examiner was convicted of grand larceny in October 2005 for obtaining nearly \$4,000 in salary from USPTO by falsifying his time and attendance records. On December 8, 2005, he was sentenced to 2 years' incarceration (23 months suspended) followed by 2 years' probation and ordered to pay the government \$3,974 in restitution.

In November 2005, a second legal instruments examiner was convicted of embezzlement, based on his fraudulent receipt of \$7,988 in unearned salary payments. On January 19, 2006, the defendant was sentenced to 3 years' incarceration, with 30 months suspended on the condition that he successfully complete 3 years' supervised probation and make full restitution to the government.

On March 23, 2006, two additional USPTO employees were arrested for time and attendance fraud. After initial appearances in Alexandria Circuit Court, they were both released on their own recognizance pending further proceedings. (*Alexandria Resident Office*)

False Voucher Results in Pretrial Probation for NOAA Employee

On February 17, 2006, an employee of the National Oceanic and Atmospheric Administration agreed to serve 12 months' probation and immediately repay \$5,913 to the government to resolve theft charges filed in District Court for Montgomery County, Maryland, as the result of an OIG investigation that found he had falsely claimed reimbursement for costs unrelated to his permanent change of duty station. The employee's transfer entitled him to reimbursement for certain relocation expenses. However, in addition to claiming costs paid to move his personal property, he submitted receipts and received reimbursement for shipping items belonging to a friend. (*Silver Spring Resident Office*)

Workers' Compensation Investigation Leads to Recovery of Benefits

A supervisory meteorological technician with the National Weather Service was ordered to repay more than \$195,000 in workers' compensation benefits as the result of a joint investigation with the Department of Labor OIG, which found that the employee had failed to report nearly \$25,000 in outside earnings on annual certifications filed over a 5-year period when he was receiving benefits. In January 2006, the Department of Labor determined that all benefits received during that period should be forfeited because the employee had knowingly accepted compensation to which he was not entitled. (*Atlanta Field Office*)

Senior NTIS Official Reprimanded for Ethics Violations

A senior official with the National Technical Information Service received a written reprimand for violating the *Standards of Ethical Conduct for Employees of the Executive Branch* after an OIG investigation found that he had direct involvement in the award and oversight of a contract with a company that employed his brother and assigned him to provide contract services to NTIS. In addition to participating in the evaluation process for the procurement, the official authorized payment of 12 separate invoices over an 11-month period, which included more than \$25,000 in contract work completed by his brother. Our investigation also established that the official failed to complete the conflict of interest certification required of employees involved in the award or administration of contracts. (*Washington Field Office*)

Census Employee Demoted for Unauthorized Possession of Government Property

An information technology specialist at the Census Bureau was demoted from a GS-12 to a GS-11 after government computers and printers previously reported as lost or stolen were found at his residence during an OIG investigation. Over the course of about a year, the employee had removed the equipment from his office without authorization for his personal use and the use of his family. (*Alexandria Resident Office*)

Criminal Misuse of Government Computers

The Office of Investigation's Computer Crimes Unit continues to enhance the security and integrity of information technology systems in the Department by aggressively investigating IT security breaches and criminal misuse of government computers, particularly in the area of Internet child pornography. In addition, the unit regularly lends its technical expertise to other OI units, providing forensic media analysis and support in connection with ongoing

investigations. Among the unit's considerable accomplishments this semiannual period was its successful pursuit of two child pornography cases, one of which received national attention.

NOAA Employee Indicted on Child Pornography and Exploitation Charges

On December 21, 2005, a 32-year NOAA employee was indicted in the District of Maryland for sexual exploitation of children and possession of child pornography after an OIG investigation disclosed that he had used government computers to download sexually explicit images of children. The crime was initially detected during the course of routine network security checks by NOAA computer security specialists who identified hundreds of thousands of images of nude and seminude children that had been downloaded across agency networks.

OIG's subsequent forensic examination of the employee's home and office computers revealed more than a million pornographic images of children, and a search of his residence uncovered evidence that he was personally involved in the production of child pornography. During the course of the investigation, we shared a portion of the data seized with the National Center for Missing and Exploited Children, which identified 16 known child victims depicted in the materials and added the victim we had identified to its national database.

Rather than face arrest, the defendant fled the country after his indictment, traveling from his brother's home in California to various locations in Canada and Europe. His case was featured on the January 21, 2006, broadcast of the national television show *America's Most Wanted*. Two days later, he contacted the American Embassy in Rome and made arrangements to surrender. He was

transported back to the United States and transferred to the custody of the U.S. Marshal's Service upon his arrival at New York's JFK Airport. Following a hearing in federal court in Brooklyn, he was returned to Maryland for trial. The defendant remains in custody and has been suspended without pay from his position at NOAA pending the outcome of his case.

On February 16, 2006, the defendant's brother was indicted in the Eastern District of California for violations of 18 USC §3 (accessory after the fact) and 18 USC §1001 (false statements to a law enforcement officer) for helping the defendant evade arrest by warning him that we had traced his movements to Canada. Further proceedings are pending. (*Computer Crimes Unit*)

Former Census Employee Sentenced on Child Pornography Charge

In our September 2005 *Semiannual Report* (page 45), we reported the conviction of a former statistical mathematician at the Bureau of the Census on one count of possessing child pornography. An OIG investigation found that the employee had used his government computer to download hundreds of sexually explicit images of children. On December 9, 2005, he was sentenced in U.S. District Court for the Southern District of Indiana to 27 months' incarceration followed by 3 years' probation and was ordered to participate in a sex offender treatment program. Upon release from prison, the defendant will also be required to register as a sex offender. (*Computer Crimes Unit*)

TABLES AND STATISTICS

Statistical Overview

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Table 1. Investigative Statistical Highlights for this Period

Criminal Investigative Activities	
Arrests	5
Indictments and informations	7
Convictions	8
Personnel actions	3
Fines, restitutions, judgments, and other civil and administrative recoveries	\$7,493,818
Allegations Processed	
Accepted for investigation	40
Referred to operating units	30
Evaluated but not accepted for investigation or referral	23
Total	93

Audit Resolution and Follow-up

The Inspector General Act Amendments of 1988 require us to present in this report those audits issued before the beginning of the reporting period (October 1, 2005) for which no management decision had been made by the end of the period (March 31, 2006). Eight audit reports remain unresolved for this reporting period (see pages 22, 27, and 36).

Department Administrative Order 213-5, Audit Resolution and Follow-up, provides procedures for management to request a modification to an approved audit action plan or for a financial assistance recipient to appeal an audit resolution determination. The following table summarizes modification and appeal activity during the reporting period.

Table 2. Audit Resolution Follow-Up

Report Category	Modifications	Appeals
Actions pending (October 1, 2005)	0	10
Submissions	1	4
Decisions	0	4
Actions pending (March 31, 2006)	1	10

Table 3. Audit and Inspection Statistical Highlights for this Period

Questioned Costs	\$4,654,257*
Value of audit recommendations that funds be put to better use	2,975,478
Value of audit recommendations agreed to be management	1,266,151
Value of inspection recommendations that funds be put to better use	54,591

*This number includes costs questioned by state and local government auditors or independent public accountants.

Table 4. Audits with Questioned Costs

Report Category	Number	Questioned Costs	Unsupported Costs
A. Reports for which no management decision had been made by the beginning of the reporting period	27	\$ 27,269,219	\$ 5,958,253
B. Reports issued during the reporting period	18	4,654,257	1,545,891
Total reports (A+B) requiring a management decision during the period ¹	45	31,923,476	7,504,144
C. Reports for which a management decision was made during the reporting period ²	26	4,980,032	2,078,569
i. Value of disallowed costs		685,342	418,408
ii. Value of costs not disallowed		4,294,690	1,660,161
D. Reports for which no management decision had been made by the end of the reporting period	19	26,943,444	5,425,575

¹ Four audit reports included in this table are also included among reports with recommendations that funds be put to better use (see table 5). However, the dollar amounts do not overlap.

² In Category C, lines i and ii do not always equal the total line C because resolution may result in values greater than the original recommendations.

Table 5. Audits with Recommendations that Funds Be Put to Better Use

Report Category	Number	Value
A. Reports for which no management decision had been made by the beginning of the reporting period	2	\$ 710,134
B. Reports issued during the reporting period	7	2,975,478
Total reports (A+B) requiring a management decision during the period ¹	9	3,685,612
C. Reports for which a management decision was made during the reporting period ²	2	710,134
i. Value of recommendations agreed to by management		580,809
ii. Value of recommendations not agreed to by management		187,445
D. Reports for which no management decision had been made by the end of the reporting period	7	2,975,478

¹ Four audit reports included in this table are also included among reports with questioned costs (see table 4). However, the dollar amounts do not overlap.

² In Category C, lines i and ii do not always equal the total line C because resolution may result in values greater than the original recommendations.

Definitions of Terms Used in the Tables

Questioned cost: a cost questioned by OIG because of (1) an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; (2) a finding that, at the time of the audit, such cost is not supported by adequate documentation; or (3) a finding that an expenditure of funds for the intended purpose is unnecessary or unreasonable.

Unsupported cost: a cost that, at the time of the audit, is not supported by adequate documentation. Questioned costs include unsupported costs.

Recommendation that funds be put to better use: an OIG recommendation that funds could be used more efficiently if Commerce management took action to implement and complete the recommendation, including (1) reductions in outlays; (2) de-obligation of funds from programs or operations; (3) withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; (4) costs not incurred by implementing recommended improvements related to Commerce, a contractor, or a grantee; (5) avoidance of unnecessary expenditures identified in preaward reviews of contracts or grant agreements; or (6) any other savings specifically identified.

Management decision: management's evaluation of the findings and recommendations included in the audit report and the issuance of a final decision by management concerning its response.

Appendix A. Report Types this Period

Type	Number of Reports	Appendix Number
Performance audits	2	A-1
Financial assistance audits	8	A-2
Financial statements audits	6	A-3
Inspections and program evaluations	5	A-4
Total	21	

Appendix A-1. Performance Audits

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
National Oceanic & Atmospheric Administration			
Opportunities to Further Enhance Controls Over User Fees	BSD-17612-6-0001	01/09/06	—
Office of the Secretary			
Department of Commerce Has Made Significant Progress, but Additional Opportunities Exist to Improve the Reporting and Utility of Performance Results	FSD-17444-6-0001	03/31/06	—

Appendix A-2. Financial Assistance Audits

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Federal Amount Questioned	Federal Amount Unsupported
Economic Development Administration					
The EDC Fund, Inc., VT	ATL-17285-6-0001	01/11/06	\$ 94,013	—	—
The Commonwealth of Pennsylvania	ATL-17545-6-0001	03/28/06	2,001,492	—	—
National Institute of Standards & Technology					
FastVDO LLC, MD	DEN-17410-6-0001	12/20/05	—	\$ 51,838	—
Kiara Networks, Inc., NM	DEN-17496-6-0001	03/15/06	—	21,255	\$ 12,590
House of Artful Expression, NY	ATL-17744-6-0001	03/31/06	182,865	607,345	607,345
National Oceanic & Atmospheric Administration					
Northwest Indian Fisheries Commission, Skokomish Indian Tribe, WA	STL-16657-6-0009	02/13/06	—	559,900	559,900
National Telecommunications & Information Administration					
Mississippi Authority for Educational Television	ATL-17529-6-0001	03/31/06	—	1,327,738	—
Suquamish Indian Tribe, WA	STL-17482-6-0001	03/31/06	—	152,379	28,138

Appendix A-3. Financial Statements Audits

Report Title	Report Number	Date Issued
Office of the Secretary		
Agreed-Upon Procedures on the FY 2005 Intragovernmental Activity and Balances	FSD-17433-6-0004	12/02/05
Assessment of Information Technology Controls Supporting Department of Commerce's Financial Management Systems FY 2005 Financial Statement Audit	FSD-17433-6-0003	12/12/05
Department of Commerce's FY 2005 Consolidated Financial Statements	FSD-17433-6-0001	11/10/05
Department of Commerce's FY 2005 Special-Purpose Financial Statements	FSD-17433-6-0002	11/22/05
United States Patent and Trademark Office		
Assessment of Information Technology Controls Supporting United States Patent and Trademark Office's Financial Management Systems	FSD-17434-6-0002	01/12/06
USPTO's FY 2005 Financial Statements	FSD-17434-6-0001	11/07/05

Appendix A-4. Inspections and System Evaluations

Report Title	Report Number	Date Issued	Funds to Be Put to Better Use
Bureau of Industry and Security			
U.S. Dual-Use Export Controls for China Need to Be Strengthened	IPE-17500	3/30/06	—
Annual Follow-Up Report on Previous Export Control Recommendations, as Mandated by the National Defense Authorization Act for Fiscal Year 2000	IPE-17935	3/30/06	—
Census Bureau			
Valuable Learning Opportunities Were Missed in the 2006 Test of Address Canvassing	OIG-17524	3/31/06	—
International Trade Administration			
CS China Generally Performs Well, But Opportunities Exist for Commerce to Better Coordinate Its Multiple China Operations	IPE-17546	3/31/06	—
Office of the Secretary			
Management of Commerce's Federal Workers' Compensation Program Needs Significant Improvements	IPE-17536	3/31/06	\$54,591

Appendix B. Processed Audit Reports

The Office of Inspector General reviewed and accepted 137 audit reports prepared by independent public accountants and local, state, and other federal auditors. The reports processed with questioned costs, recommendations that funds be put to better use, and/or non-financial recommendations are listed in Appendix B-1.

Agency	Audits
Economic Development Administration	35
National Institute of Standards and Technology*	75
National Oceanic and Atmospheric Administration	10
National Telecommunications and Information Administration	2
Multiagency	11
Agency not identified	4
Total	137

*Includes 69 ATP program-specific audits.

Appendix B-1 - Processed Reports with Audit Findings

Report Title	Report Number	Date Issued	Value of Funds to Be Put to Better Use	Amount Questioned	Amount Unsupported
Economic Development Administration					
City of Aurora, CO	ATL-09999-6-2345	03/07/06	\$ 413,000	—	—
Municipality of San German, PR	ATL-09999-6-2429	03/07/06	—	—	—
City of Mullins, SC	ATL-09999-6-2433	03/08/06	—	\$ 200,000	—
Great Falls Development Authority, MT	ATL-09999-6-2352	03/08/06	185,639	—	—
Operation Hope, Inc., CA	ATL-09999-6-2279	03/29/06	—	68,173	—
National Institute of Standards & Technology					
Chesapeake PERL, Inc., MD	ATL-09999-6-2170	10/26/05	—	28,913	—
Chiral Photonics, Inc., NJ	ATL-09999-6-2029	10/26/05	—	40,135	—
HandyLab, Inc., MI	ATL-09999-6-2127	10/26/05	—	47,258	—
VorCat, Inc., MD	ATL-09999-6-2037	10/26/05	—	49,884	—
AMTEK Research International , OR	ATL-09999-6-2173	12/30/05	—	16,587	—
Branson Ultrasonics Corporation, CT	ATL-09999-6-2129	01/13/06	—	38,228	\$ 38,228
CombiSep, Inc., IA	ATL-09999-6-2268	01/13/06	—	61,164	—
Sonobond Ultrasonics, Inc., PA	ATL-09999-6-2131	01/13/06	—	4,793	—
QuantumDot Corporation, CA	ATL-09999-6-2293	03/07/06	23,209	—	—
mVerify Corporation, IL	ATL-09999-6-1979	03/08/06	75,260	—	—
National Oceanic & Atmospheric Administration					
The JASON Foundation for Education, VA	ATL-09999-6-2350	03/07/06	—	441,942	299,690
Seacoast Science Center, Inc., NH	ATL-09999-6-2489	03/27/06	—	936,725	—

REPORTING REQUIREMENTS

The Inspector General Act of 1978, as amended, specifies reporting requirements for semiannual reports. The requirements are listed below and indexed to the applicable pages of this report.

Section	Topic	Page
4(a)(2).....	Review of Legislation and Regulations	60–61
5(a)(1).....	Significant Problems, Abuses, and Deficiencies	13–44
5(a)(2).....	Significant Recommendations for Corrective Action.....	13–44
5(a)(3).....	Prior Significant Recommendations Unimplemented	60
5(a)4.....	Matters Referred to Prosecutive Authorities	52
5(a)(5) and 6(b)(2).....	Information or Assistance Refused	61
5(a)(6).....	Listing of Audit Reports	52–59
5(a)(7).....	Summary of Significant Reports	13–44
5(a)(8).....	Audit Reports—Questioned Costs	53
5(a)(9).....	Audit Reports—Funds to Be Put to Better Use.....	54
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5(a)(11).....	Significant Revised Management Decisions	61
5(a)(12).....	Significant Management Decisions with which OIG Disagreed	61

Section 4(A)(2): Review of Legislation and Regulations

This section requires the inspector general of each agency to review existing and proposed legislation and regulations relating to that agency’s programs and operations. Based on this review, the inspector general is required to make recommendations in the semiannual report concerning the impact of such legislation or regulations on the economy and efficiency of the management of programs and operations administered or financed by the agency or on the prevention and detection of fraud and abuse in those programs and operations. Comments concerning legislative and regulatory initiatives affecting Commerce programs are discussed, as appropriate, in relevant sections of the report.

Section 5(A)(3): Prior Significant Recommendations Unimplemented

This section requires identification of each significant recommendation described in previous semiannual reports for which corrective action has not been completed. Section 5(b) requires that the Secretary transmit to Congress statistical tables showing the number and value of audit reports for which no final action has been taken, plus an explanation of the reasons why recommended action has not occurred, except when the management decision was made within the preceding year.

To include a list of all significant unimplemented recommendations in this report would be duplicative. Information on the status of any audit recommendations can be obtained through OIG’s Office of Audits.

Sections 5(A)(5) and 6(B)(2): Information or Assistance Refused

These sections require a summary of each report to the Secretary when access, information, or assistance has been unreasonably refused or not provided. There were no instances during this semiannual period and no reports to the Secretary.

Section 5(A)(10): Prior Audit Reports Unresolved

This section requires a summary of each audit report issued before the beginning of the reporting period for which no management decision has been made by the end of the reporting period (including the date and title of each such report), an explanation of why a decision has not been made, and a statement concerning the desired timetable for delivering a decision on each such report. There were 8 reports more than 6 months old.

Section 5(A)(11): Significant Revised Management Decisions

This section requires an explanation of the reasons for any significant revision to a management decision made during the reporting period. Department Administrative Order 213-5, Audit Resolution and Follow-up, provides procedures for revising a management decision. For performance audits, OIG must be consulted and must approve in advance any modification to an audit action plan. For financial assistance audits, OIG must concur with any decision that would change the audit resolution proposal in response to an appeal by the recipient. The decisions issued on the four appeals of audit-related debts were finalized with the full participation and concurrence of OIG.

Section 5(A)(12): Significant Management Decisions with Which OIG Disagreed

This section requires information concerning any significant management decision with which the inspector general disagrees. Department Administrative Order 213-5 provides procedures for elevating unresolved audit recommendations to higher levels of Department and OIG management, including their consideration by an Audit Resolution Council. During this period no audit issues were referred to the council.

ACRONYMS

ATC.....	American Trading Center
ATP.....	Advanced Technology Program
BIS.....	Bureau of Industry and Security
C&A.....	certification and accreditation
CIO.....	chief information officer
CCL.....	Commerce Control List
CS.....	Commercial Service
EAR.....	Export Administration Regulations
EDA.....	Economic Development Administration
ESA.....	Economics and Statistics Administration
FDCA.....	Field Data Collection Automation
FECA.....	Federal Employees' Compensation Act
FISMA.....	Federal Information Security Management Act
GAO.....	Government Accountability Office
GOES.....	Geostationary Operational Environmental Satellites
GPS.....	Global Positioning System
GPRA.....	Government Performance and Results Act
IFQ.....	individual fishing quotas
IG.....	inspector general
IT.....	information technology
ITA.....	International Trade Administration
MBDA.....	Minority Business Development Agency
MBOC.....	Minority Business Operating Committee
MEP.....	Manufacturing Extension Partnership
NDAA.....	National Defense Authorization Act
NIST.....	National Institute of Standards and Technology

NMFS.....	National Marine Fisheries Service
NOAA	National Oceanic and Atmospheric Administration
NPOESS.....	National Polar-orbiting Operational Environmental Satellite System
NTIA	National Telecommunications and Information Administration
OHRM.....	Office of Human Resources Management
OIG	Office of Inspector General
OMB	Office of Management and Budget
OWCP	Office of Workers' Compensation Programs
POES.....	Polar Operational Environmental Satellites
RLF	revolving loan fund
SARSAT.....	Search and Rescue Satellite Aided Tracking System
USPTO	United States Patent and Trademark Office

TYPES OF OIG WORK PRODUCTS

The various kinds of audits, evaluations, inspections, and investigations at our disposal enable the IG's office to assess Commerce programs and operations from a range of perspectives. Thus we are able to provide program managers with reviews and recommendations that are either narrowly focused or comprehensive, as needed, to aid them in ensuring the most efficient and effective use of taxpayer dollars.

AUDITS

Performance Audits address the efficiency, effectiveness, and economy of the Department's programs, activities, and information technology systems. They may check a unit's compliance with laws and regulations, and evaluate its success in achieving program objectives. They may also involve reviewing the Department's financial assistance awards by assessing an award recipient's compliance with laws, regulations, and award terms; allowance of costs; and the degree to which projects achieved intended results.

Financial Audits determine whether (1) a reporting entity's financial statements are presented fairly and in accordance with generally accepted accounting principles; (2) the entity has an internal control structure that provides reasonable assurance of achieving the control objectives set forth by OMB; and (3) the entity complied with laws and regulations that could have a direct and material effect on the financial statements, the Federal Financial Management Improvement Act, and other laws and regulations.

Attestation Engagements involve examining, reviewing, or performing agreed-upon procedures on a subject matter or an assertion about a subject matter and reporting the results. Attestation

engagements can have a broad range of financial or nonfinancial focuses, such as an entity's compliance with laws and regulations; management's discussion and analysis presentations; and allowability and reasonableness of final grant and contract costs.

INSPECTIONS

Inspections are reviews of an activity, unit, or office, or a contractor or other nonfederal entity that receives funds from the Department. They focus on an organization, not a whole program, and are often designed to give agency managers timely and useful information about operations, including current and foreseeable problems.

EVALUATIONS

Program Evaluations are in-depth reviews of specific management issues, policies, or programs.

Systems Evaluations review system development, acquisitions, operations, and policy, focusing on computer systems and other technologies.

INVESTIGATIONS

Investigations are conducted based on alleged or suspected wrongdoing by Department employees, contractors, recipients of financial assistance, and others responsible for handling federal resources. Investigations that expose violations of Department rules and regulations or acts of fraud committed against the U.S. government can result in administrative sanctions and/or criminal or civil prosecution.

U.S. Department of Commerce

The U.S. Department of Commerce creates the conditions for economic growth and opportunity by promoting innovation, entrepreneurship, competitiveness, and stewardship. The Department accomplishes its mission by providing national and local weather services, developing key economic and demographic data (including the decennial census), and working to advance technological and scientific innovation, protect and restore environmental resources, promote international trade, and support local, regional, and national economic development. These activities impact U.S. business and industry daily and play a critical role in the nation's economic well-being.

